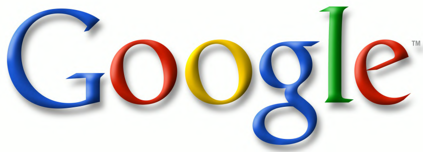


This is a digital copy of a book that was preserved for generations on library shelves before it was carefully scanned by Google as part of a project to make the world's books discoverable online.

It has survived long enough for the copyright to expire and the book to enter the public domain. A public domain book is one that was never subject to copyright or whose legal copyright term has expired. Whether a book is in the public domain may vary country to country. Public domain books are our gateways to the past, representing a wealth of history, culture and knowledge that's often difficult to discover.

Marks, notations and other marginalia present in the original volume will appear in this file - a reminder of this book's long journey from the publisher to a library and finally to you.

Usage guidelines

Google is proud to partner with libraries to digitize public domain materials and make them widely accessible. Public domain books belong to the public and we are merely their custodians. Nevertheless, this work is expensive, so in order to keep providing this resource, we have taken steps to prevent abuse by commercial parties, including placing technical restrictions on automated querying.

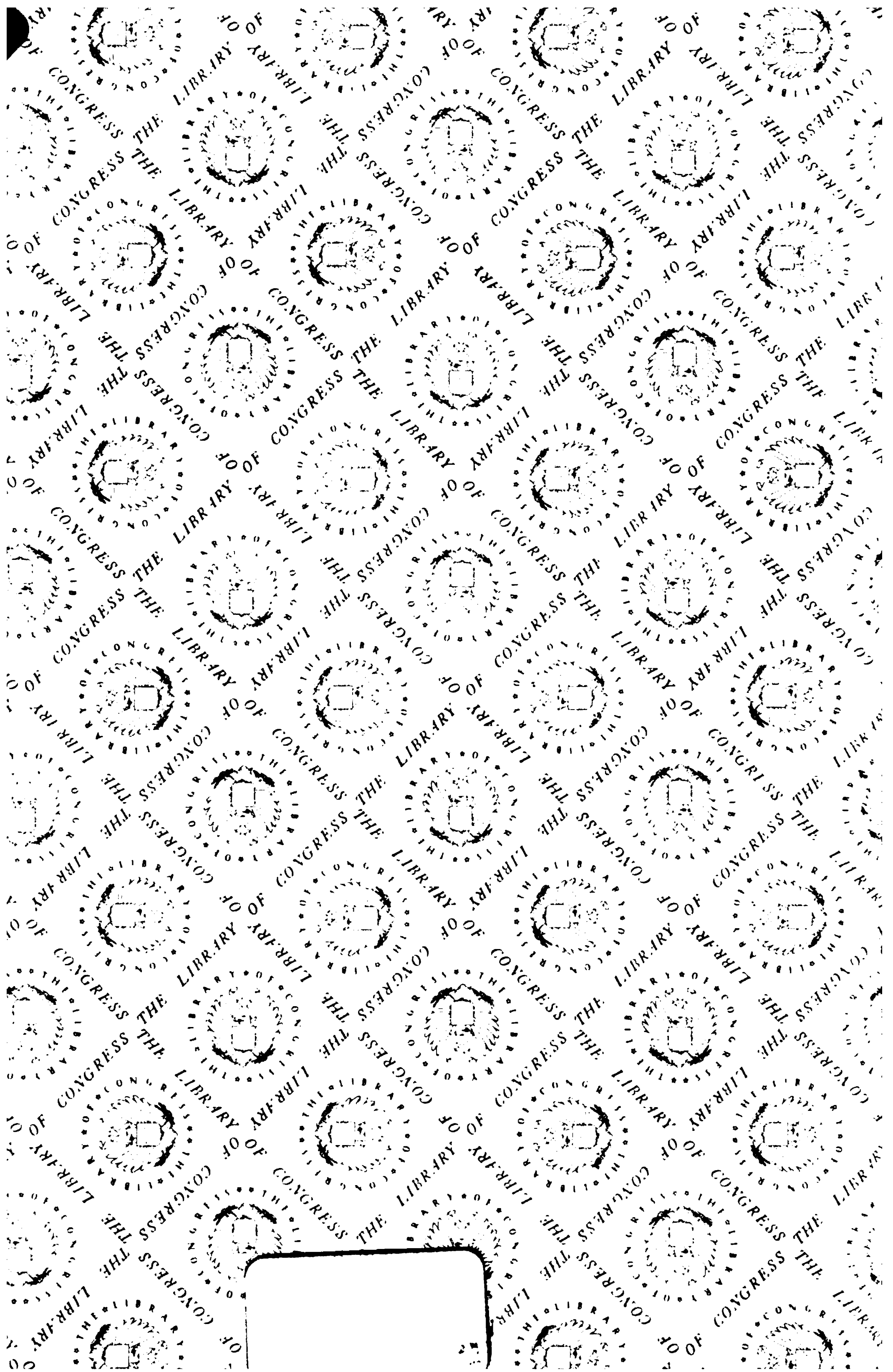
We also ask that you:

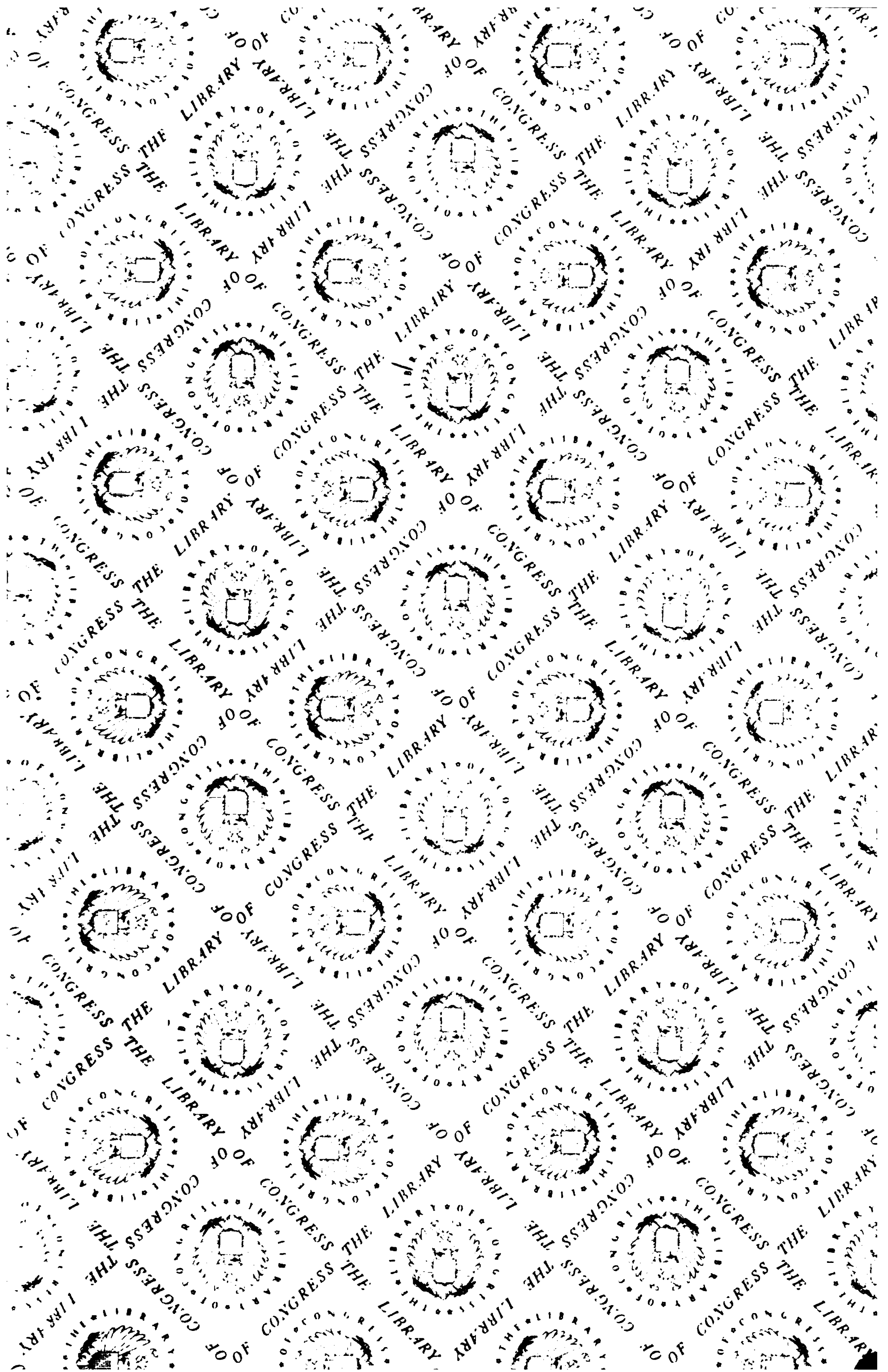
+ *Make non-commercial use of the files* We designed Google Book Search for use by individuals, and we request that you use these files for personal, non-commercial purposes.
+ *Refrain from automated querying* Do not send automated queries of any sort to Google's system: If you are conducting research on machine translation, optical character recognition or other areas where access to a large amount of text is helpful, please contact us. We encourage the use of public domain materials for these purposes and may be able to help.
+ *Maintain attribution* The Google "watermark" you see on each file is essential for informing people about this project and helping them find additional materials through Google Book Search. Please do not remove it.
+ *Keep it legal* Whatever your use, remember that you are responsible for ensuring that what you are doing is legal. Do not assume that just because we believe a book is in the public domain for users in the United States, that the work is also in the public domain for users in other countries. Whether a book is still in copyright varies from country to country, and we can't offer guidance on whether any specific use of any specific book is allowed. Please do not assume that a book's appearance in Google Book Search means it can be used in any manner anywhere in the world. Copyright infringement liability can be quite severe.

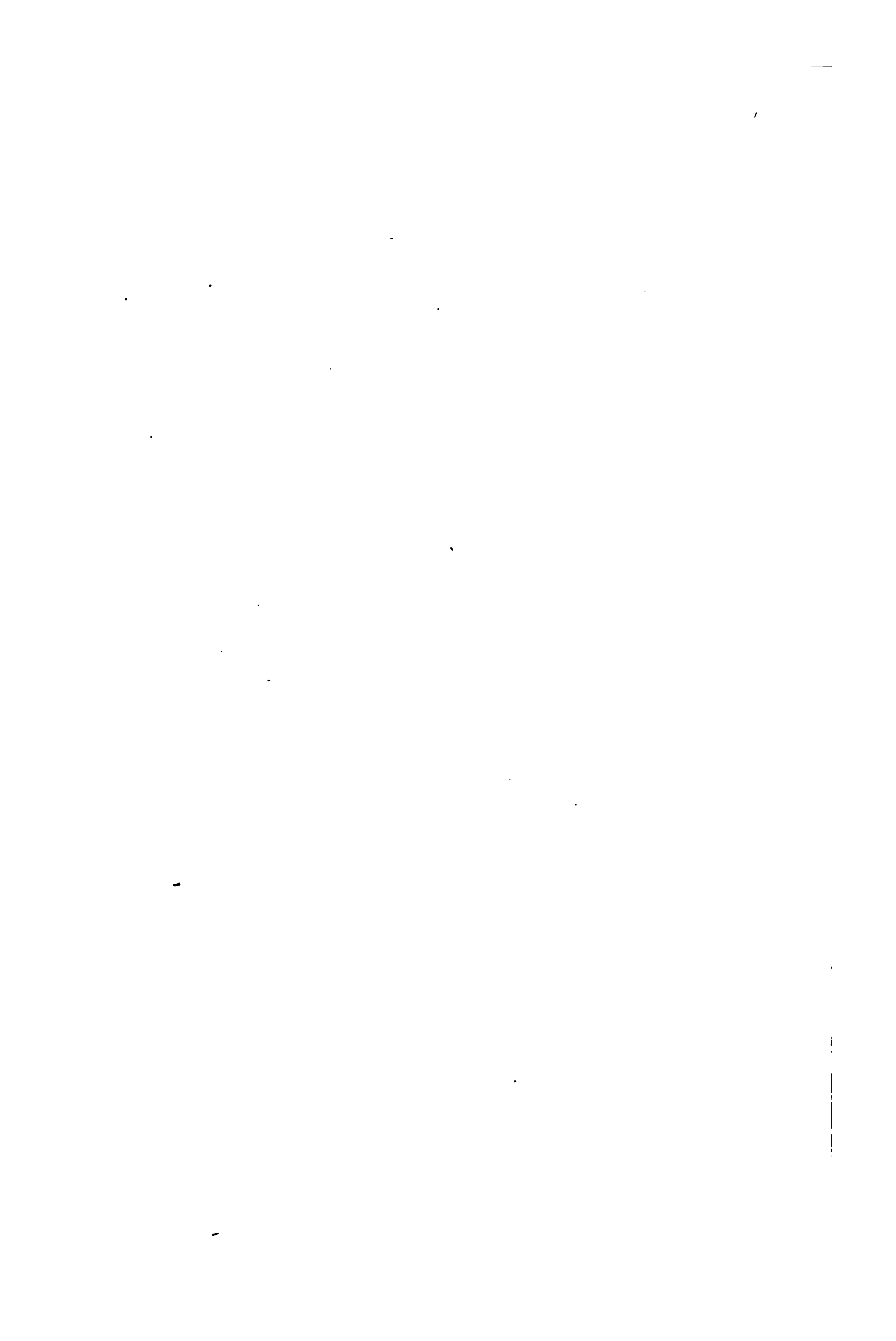
About Google Book Search

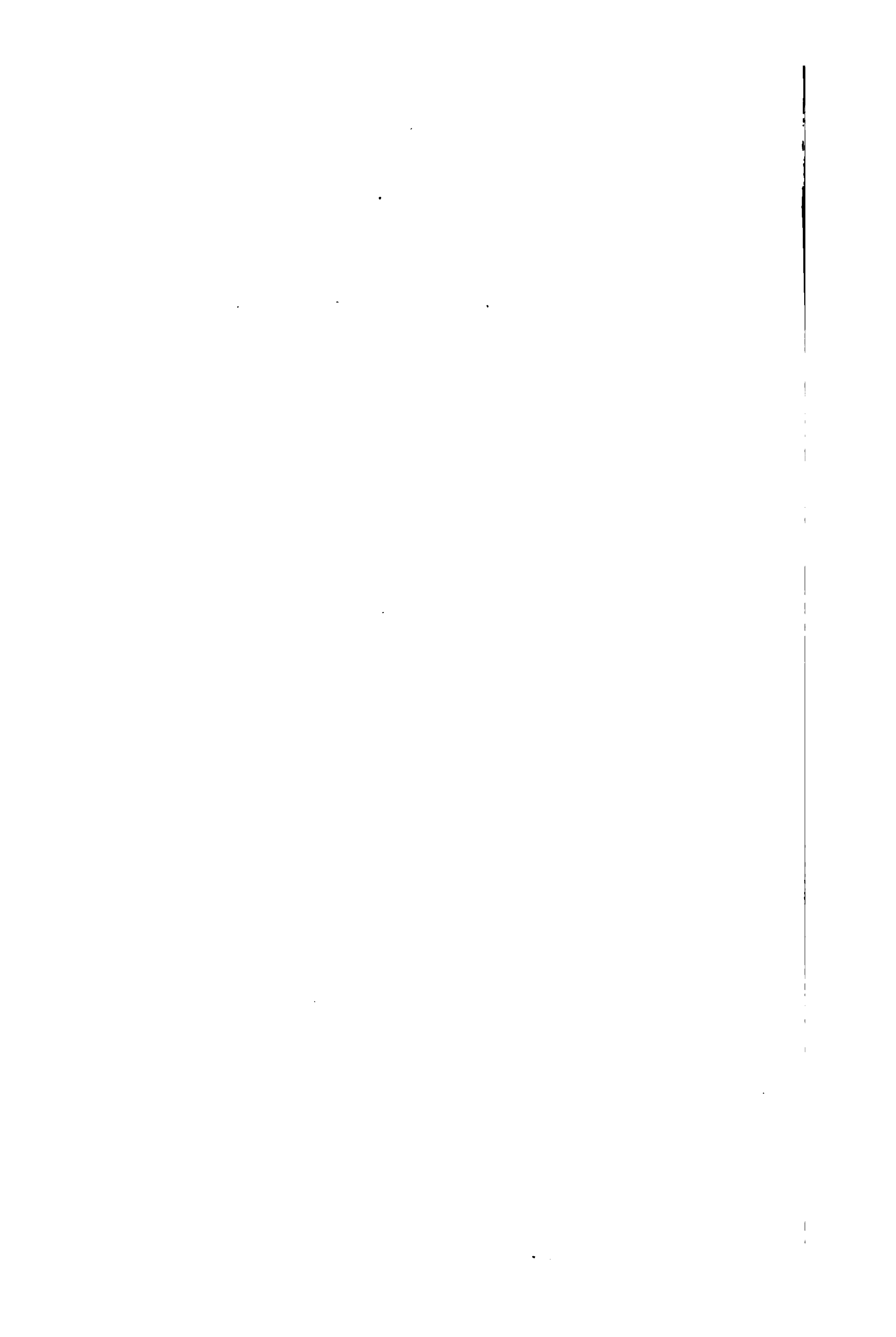
Google's mission is to organize the world's information and to make it universally accessible and useful. Google Book Search helps readers discover the world's books while helping authors and publishers reach new audiences. You can search through the full text of this book on the web at http://books.google.com/

HG 2401
.A3
1901









HEARINGS AND ARGUMENTS

175

BEFORE THE

COMMITTEE ON BANKING AND CURRENCY

OF THE

U. S. Congress,

HOUSE OF REPRESENTATIVES.

FIFTY-SIXTH CONGRESS, SECOND SESSION.

1901.

THE LIBRARY OF CONGRESS

WASHINGTON:
GOVERNMENT PRINTING OFFICE.
1901.

HG 2401
A3

COMMITTEE ON BANKING AND CURRENCY, HOUSE OF REPRESENTATIVES, UNITED STATES.

Fifty-sixth Congress.

MARRIOTT BROSIUS, Pennsylvania, *Chairman*.

CHARLES N. FOWLER, New Jersey.
EBENEZER J. HILL, Connecticut.
GEORGE W. PRINCE, Illinois.
ADIN B. CAPRON, Rhode Island.
JOE H. LANE, Iowa.
WILLIAM A. CALDERHEAD, Kansas.
JESSE OVERSTREET, Indiana.
WILLIAM C. LOVERING, Massachusetts.
WILLIAM B. SHATTUC, Ohio.
NICHOLAS N. COX, Tennessee.
JESSE F. STALLINGS, Alabama.
EDMUND H. DRIGGS, New York.
W. JASPER TALBERT, South Carolina.
JOHN S. RHEA, Kentucky.
JOHN R. THAYER, Massachusetts.
ELIJAH B. LEWIS, Georgia.

FRED L. FISHBACK, *Clerk*.

THE LIBRARY
OF CONGRESS

H. R. 13303. Fifty-sixth Congress, second session.

IN THE HOUSE OF REPRESENTATIVES.

JANUARY 7, 1901.

Mr. LOVERING introduced the following bill; which was referred to the Committee on Banking and Currency and ordered to be printed.

A BILL to make the currency responsive to the varying needs of business at all seasons and in all sections.

Be it enacted by the Senate and House of Representatives of the United States of America in Congress assembled,

GUARANTEED BANK NOTES AUTHORIZED.

That, in addition to the circulation authorized by existing law to be issued to national banking associations upon deposits of United States bonds, the Comptroller of the Currency may issue circulating notes, to be known as guaranteed bank notes, in the amounts and under the conditions hereinafter set forth: *Provided*, That nothing herein contained shall be construed as compelling said Comptroller to issue such guaranteed bank notes if for any reason relating to the condition of the bank making application for such notes, the general state of the circulation, or the foreign exchanges he shall deem such action to be inexpedient.

PRESENT ISSUES LIMITED TO TEN PER CENT.

SEC. 2. That guaranteed bank notes may be issued to any national banking association under the provisions of this act to an amount not exceeding one-fifth of the face value of the United States bonds on deposit by said bank with the Treasurer of the United States to secure currency notes issued under existing law, but such guaranteed bank notes shall not be issued to an amount in excess of ten per centum of the paid up and unimpaired capital of said bank.

BANK-NOTE GUARANTY FUND ESTABLISHED.

SEC. 3. That every national banking association issuing guaranteed bank notes shall pay into the division of issue and redemption in the office of the Treasurer of the United States a sum in gold coin equal to five per centum of its outstanding guaranteed bank notes. This fund shall be known as the "bank-note guaranty fund," and shall not be reduced or impaired except for the purpose of redeeming the guaranteed bank notes of failed banks, as hereinafter prescribed.

EMPLOYMENT OF THE GUARANTY FUND.

SEC. 4. That whenever the Comptroller of the Currency shall have become satisfied by the protest or the waiver and admission specified in section fifty-two hundred and twenty-six, or by the report provided for in section fifty-two hundred and twenty-seven, of the Revised Statutes of the United States, that any banking association has refused to pay its guaranteed bank notes on demand in lawful money he shall direct the redemption of such notes from the bank-note guaranty fund aforesaid, and such notes shall thereupon be so redeemed. The Comptroller of the Currency shall collect for the benefit of said fund, from the assets of the bank and from the stockholders thereof, such sum as, with the bank's balance in the bank-note guaranty fund, shall equal the amount of its guaranteed bank notes outstanding. And for this purpose the United States shall, on behalf of the bank-note guaranty fund, have a lien upon all the assets of the association ratably with other creditors of the bank.

ANNUAL TAX UPON NOTES IN CIRCULATION.

SEC. 5. That upon all outstanding guaranteed bank notes issued under the provisions of this act there shall be paid a tax equal as nearly as may be to one-half of one per centum per annum during the period for which such notes may be in circulation. Said taxes shall be levied under regulations prescribed by the Comptroller of the Currency, with the approval of the Secretary of the Treasury, and shall be assessed by the Treasurer of the United States. Such regulations shall provide for the assessment of the tax upon notes actually in circulation outside the issuing bank at convenient dates, not less than four in any month, as fixed by the Comptroller of the Currency, and said Comptroller may prescribe and require from any national banking association making application for circulation under this act such periodical or other reports as he may deem desirable for determining the condition of the bank.

TAXES TO BE ADDED TO GUARANTY FUND.

SEC. 6. That the proceeds of the taxes herein prescribed shall be paid into the bank-note guaranty fund and constitute a part thereof; but when such fund, after the deduction of all losses caused by the redemption of the notes of failed banks, shall be materially in excess of five per centum of the guaranteed bank notes then outstanding, the Comptroller of the Currency may from time to time, in his discretion, direct the reimbursement by the Treasurer of the United States to the banks, in such installments as said Comptroller may see fit, of the unimpaired portion of their original contribution of five per centum to the bank-note guaranty fund; and thereafter any excess in the fund of the proceeds of the taxes herein provided above five per centum of the guaranteed bank notes outstanding at the end of every six months shall be covered into the Treasury of the United States as a miscellaneous receipt: *Provided*, That in case of a deficiency in said fund at any time, caused by the redemption of the notes of failed banks, said fund shall be reimbursed from the amounts covered into the Treasury in such amounts as may be required to maintain it as nearly as may be at the amount of five per centum, and not less, of the guaranteed bank notes outstanding, but the Treasury shall not be liable in the aggregate to said fund beyond the amounts covered into the Treasury under the provisions of this section.

SEC. 7. That the Secretary of the Treasury be, and is hereby, authorized, in his discretion, to cause to be invested in bonds of the United States any portion of the guaranty fund hereinbefore provided for; and such bonds shall be held and disposed of for the benefit of such fund.

SEC. 8. That whenever the Comptroller of the Currency has sold at public auction under the provisions of section fifty-two hundred and thirty of the Revised Statutes of the United States the United States bonds held to secure the currency notes of any failed bank, any excess in the amount received for said bonds above their par value shall be applied to the payment of the outstanding guaranteed bank notes of said bank, and for this purpose the United States shall have a paramount lien upon any such excess, but any further excesses above the amount required for this purpose shall be covered into the general assets of the bank.

CURRENT REDEMPTION FUND ESTABLISHED.

SEC. 9. That national banking associations taking out guaranteed bank notes under the provisions of this act shall, in addition to the bank-note guaranty fund, deposit and maintain in the Treasury a fund of five per centum of their outstanding guaranteed bank notes, subject to the laws governing the redemption fund held under existing law for the current redemption of national bank notes; but such fund shall be paid and kept in gold coin of the United States, and shall constitute a separate fund for the current redemption of guaranteed bank notes: *Provided*, That the Comptroller of the Currency shall, with the approval of the Secretary of the Treasury, have authority to provide for the redemption of guaranteed bank notes at any or all of the subtreasuries of the United States, and guaranteed bank notes issued under the provisions of this act shall be redeemed in gold coin on demand at the counter of the issuing bank.

SEC. 10. That the guaranteed bank notes furnished to national banking associations under the provisions of this act shall be in such form as the Comptroller of the Currency, with the approval of the Secretary of the Treasury, may prescribe, and of the denominations and under the limitations prescribed for national bank notes by section twelve of the act of March fourteenth, nineteen hundred, entitled "An act to define and fix the standard of value, to maintain the parity of all forms of money issued or coined by the United States, to refund the public debt, and for other purposes.

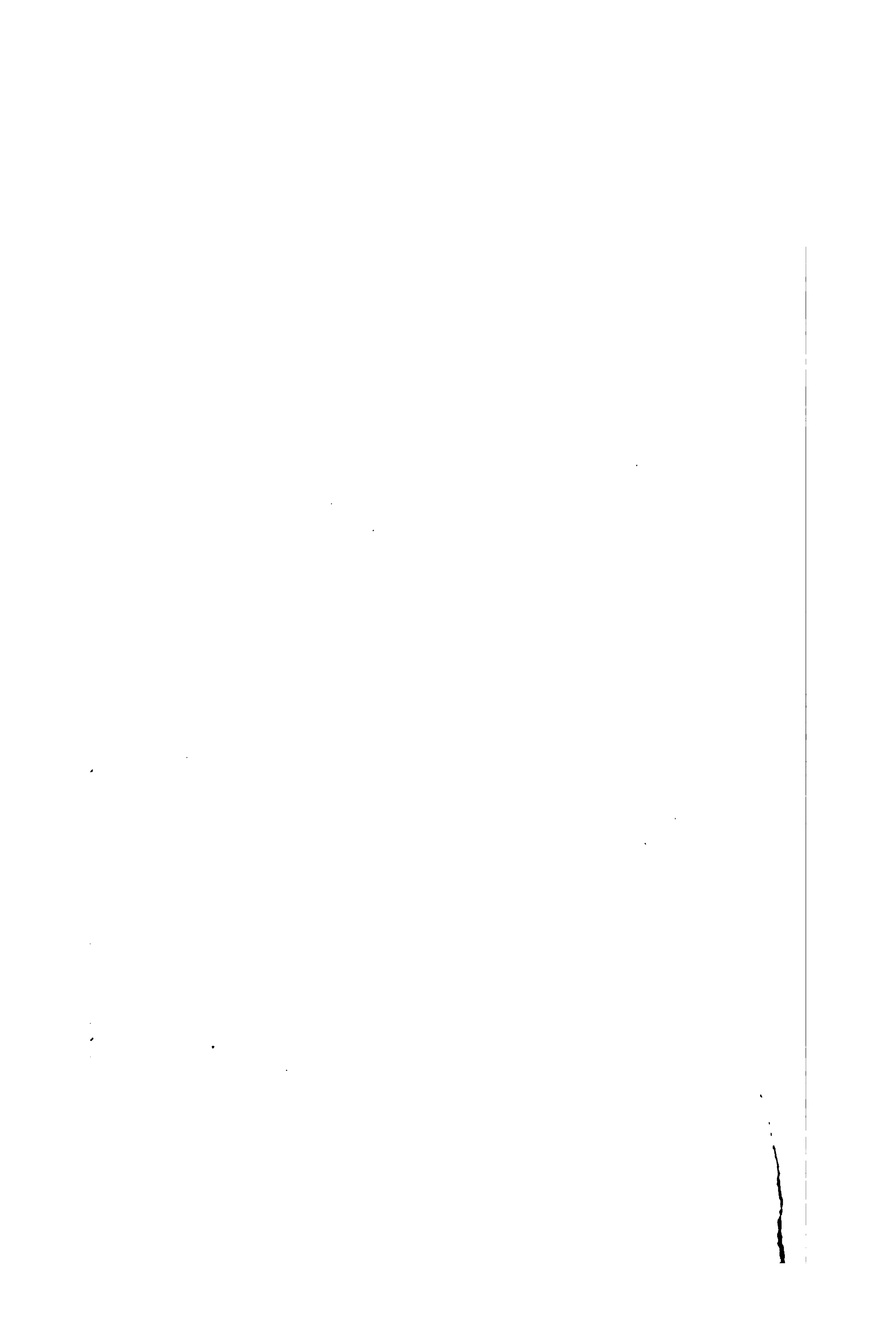
METHOD OF REDUCING CIRCULATION.

SEC. 11. That any national banking association desiring to withdraw from circulation any of its guaranteed bank notes may transmit the same to the Treasurer of the United States for cancellation, or may pay into the Treasury an amount equal to the amount of the notes to be withdrawn, in the manner prescribed by sections fifty-two hundred and twenty-two, fifty-two hundred and twenty-four, and fifty-two hundred and twenty-five of the Revised Statutes; but such payments shall be in gold coin of the United States. The taxes upon such guaranteed bank notes thus withdrawn from circulation shall thereupon cease, and the Comptroller of the Currency shall direct the repayment to such bank of whatever sum may be the unimpaired portion of its original contribution to the guaranty fund on account of said notes, but nothing paid in taxes upon such notes under section five of this act shall be thus repaid.

EXTENSION OF NOTE ISSUES AFTER THREE YEARS.

SEC. 12. That after three years from the passage of this act guaranteed bank notes may be issued to any national banking association under the provisions of this act to an amount not exceeding two-fifths of the face value of the United States bonds on deposit by said bank with the Treasurer of the United States to secure currency notes issued under existing law, but such guaranteed bank notes shall not be issued to an amount in excess of twenty per centum of the capital of said bank; and after six years from the passage of this act guaranteed bank notes may be issued to any national banking association to an amount not exceeding four-fifths of the face value of the United States bonds on deposit by said bank with the Treasurer of the United States to secure currency notes issued under existing law, but such guaranteed bank notes shall not be issued to an amount in excess of forty per centum of the capital of said bank: *And provided*, That nothing herein contained shall be construed as compelling the Comptroller of the Currency to issue such guaranteed bank notes or to increase the ratio of such issues to the bonds deposited by any national banking association if for any reason relating to the condition of the bank, the general state of the circulation, or the foreign exchanges he shall deem such action to be inexpedient; and said Comptroller shall not increase the ratio of issue of guaranteed bank notes in any case beyond the amount provided in section one of this act until after the Secretary of the Treasury shall have declared in writing that the general policy of such an increase will not be detrimental to the monetary standard and to the public interests, and is approved by him.

SEC. 13. That this act shall take effect upon its passage.



HEARINGS BEFORE SUBCOMMITTEE NO. 2 OF THE COMMITTEE ON BANKING AND CURRENCY, HOUSE OF REPRESENTATIVES, SECOND SESSION.

SUBCOMMITTEE No. 2.

CHARLES N. FOWLER, New Jersey, *Chairman.*
WILLIAM A. CALDERHEAD, Kansas.
WILLIAM C. LOVERING, Massachusetts.
JESSE F. STALLINGS, Alabama.
ELIJAH B. LEWIS, Georgia.

WASHINGTON, D. C., *Thursday, January 31, 1901.*

The subcommittee of the Committee on Banking and Currency, having under consideration the bill (H. R. 13303) "to make the currency responsive to the varying needs of business at all seasons and in all sections," met at 10.30 o'clock a. m.

Present: Representatives Fowler (chairman of the subcommittee, presiding), Brosius, Hill, Capron, Calderhead, Lovering, Shattuc, Cox, Stallings, Driggs, Rhea, Thayer, and Lewis.

STATEMENT OF HON. LYMAN J. GAGE, SECRETARY OF THE TREASURY.

Mr. FOWLER. Mr. Secretary, we have invited you here to express your views in such way as you deem proper, reserving in the outset the right to ask any questions after you have expressed your views with regard to the measure before you or in general, as you see fit. I may say that we desire you to have the license of addressing yourself to the subject in general first and the bill afterwards, or to the bill first and the subject in general afterwards, according to your own pleasure.

Mr. LOVERING. Or to the subject only, if he chooses.

Mr. FOWLER. Yes, sir.

Secretary GAGE. Mr. Chairman, I have read over the bill to which you have referred, and which is before your subcommittee. I think the design and purpose of the bill are in the direction which legislation should take. It is my belief that our present system of currency is awkward, stiff, irresponsive to public requirements, and unscientific in theory. It seems to me fundamental that a properly constituted currency must be issued by some agency (a banking agency, so far as we are now equipped with the proper agencies) which, while furnishing a medium of circulation, can also endow that medium with the elements of credit. That credit must be extended by some well-known agency, so that when its notes are issued they may serve to meet the needs of

the commercial community for instruments of credit, effective in the exchange of property, as well as a mere medium or instrument of circulation.

Our present system of currency fails absolutely to meet these requirements. The greenback is a good instrument of exchange. The silver certificate is a good instrument of exchange. The gold coin or gold certificates are equally good; and the bank note differs in no particular, as a medium of exchange, from the others. The greenback represents a contribution of capital from someone to the Government. The gold coin or the gold certificate, or the silver or silver certificate, represent capital invested in the gold or the gold certificate, or the silver or the silver certificate. The bank note represents capital to an equal or a larger amount invested in a public security.

Of course it would take a great many words to cover fully this theoretical branch of the subject; and I hardly need do that at this time. But as I said in the beginning, the bank is the true agency from which should emanate the paper representatives of actual money, because they can be made the instruments by which the credit (not the capital, but the credit) of the strong and the powerful can be extended on cheap terms to those persons carrying on industry and enterprise who can employ credit in the field of production—persons whose individual credit is not well enough known, generally and publicly, to be effective for their business affairs, but who can make it effective by exchanging it with some strong, powerful, and well-known agency, such as a bank.

If I have made myself even tolerably clear so far, it is plain that my conviction is that some modification in our present system should take place, which will enable a bank to more perfectly discharge its office as an agency for making credit effective in the transactions of life.

This bill looks to that end. It provides, speaking generally, a modification of our present system; and under certain conditions therein named and imposed, it allows banking institutions to issue notes based upon their credit and responsibility, to a limited extent. That extent is in the beginning very limited, and from year to year becomes operative in an increased degree in that direction. In other words, it aims at a consummation, in my opinion, devoutly to be wished—not by the banking interest as a class, but by the country as a whole, if the country as a whole were able to intelligently grasp all the elements entering into the question and could see that which is for its highest interest.

My only doubt about the bill is whether, in the first, place, it is timely, and whether, in the second, place it is comprehensive enough, and covers all of the questions which must be considered in bringing the matter to a true and final solution.

I have a theory that if a measure valuable as this is in its spirit and essence were adopted, it might postpone until a later date than that to which it ought to be postponed, that further and deeper consideration which I have just indicated is in my opinion necessary.

I will not take up your time by going into the collateral issues, some of which I have in mind; but I will endeavor to answer any questions which any of you may desire to put to me in regard to the bill or incidentals relating to it.

Mr. FOWLER. Mr. Secretary, you have indicated that in your judg-

ment the adoption of this measure would anticipate a needed reform. Will you kindly outline what that reform would cover and involve, in your judgment?

Secretary GAGE. Your question opens a rather wide field, but I will endeavor to answer it as briefly as I can.

Mr. LOVERING. May I interject a question at this point? As far as the bill goes, is there anything in it that would interfere with any other or further measures which you have in mind, beyond the mere question of anticipation?

Secretary GAGE. I think I will have to answer that question, "Yes; it might interfere, in that it establishes a course of affairs and a relation of things that might stand in the way of the adoption of a more thorough-going measure." That is all. When a measure meeting all scientific or practical requirements is adopted, there must be motive enough in the field (viz, banking), which must cooperate to make measures effective; and if you fix conditions that are tolerably comfortable, you may take away or fail to furnish them motives for the action which will be necessary to be taken by the representatives of the public, the bankers, in making the broader measure promptly operative and thoroughly effective.

Mr. LOVERING. Now, Mr. Secretary, if you will kindly go on and answer Mr. Fowler's question, we shall be pleased to have you do so.

(The stenographer read the question.)

Secretary GAGE. We are in a position—speaking now as to the Government and the people whom the Government represents—which has several sides, and they must all be considered. We have $346,000,000 of immediate demand liabilities existing in the Government, clothed with the power of legal tender, and forming the basis of reserves to banks throughout the country. We have, or soon will have, about $600,000,000 of silver, which is equally clothed with the same power or function, but which, in my opinion, throws upon the Treasury a burden almost as great as the greenback burden in maintaining the parity between gold and silver; and we have a considerable volume—about $340,000,000 or $350,000,000—of national-bank notes. The volume of the greenbacks seems to be fixed, or it is the strenuous effort of the Government to keep it fixed. The same thing is true of the silver. The issue of national-bank notes is regulated not at all by a demand for those services which banks perform, but wholly by the price of United States bonds in the market. The absorption of the United States bonds by the national banks, under the provisions of law which we are now considering, has given an artificial price to our securities; and we seem to have reached a point very flattering to us, where the bonds of the United States are sold or are salable at a rate of interest unexampled as to lowness in the history of the world, and unequaled in the experience of any other country.

In my opinion we should modify the amount of demand liabilities of the Government of the United States. In any step we may take we must carefully guard against such a radical change as would release too greatly, or to too great an extent, the influence of national banks in the holding of Government bonds; and we must act in such a way that they would have no motive in releasing them to the market in any rapid manner. The national banks hold over 30 per cent (I think over

33⅓ per cent) of the Government debt. The other banks of the United States, outside of the savings banks, do not hold 10 per cent.

We must, if we can (having these two things in mind of which I have been speaking), modify existing conditions so as to make the issues of national banks somewhat responsive, if not fully responsive, to the needs of the community in the direction of a medium of exchange between men, and an instrument by which the credit of the bank can be extended to the borrower of credit.

It is my belief that with sufficient thought and study, and an earnest desire to cooperate among those who will take a broad view of the whole situation, the present demand liability of the Government, in the shape of the greenbacks, can be retired without any cost at all to the Government in the way of interest—thus saving to the Government the expense, burden, and risk of gold redemption. This would strengthen the Government very much in its ability to maintain the parity between gold and silver.

I believe the measure also might be so guarded as to prevent the second contingency from arising to which I have referred, viz, the releasing of Government bonds from national banks into the open market, to the prejudice of the Government standing and credit as to low interest. And in the third place, I believe a measure embodying these features would be perfectly safe as far as concerns the community which would hold the issues of these banks in their possession from time to time, and yet would cover that condition on which I put considerable emphasis, viz, an adequate supply of currency as the needs of the public determine to be needful, and make the form of currency carry with it the element of credit extended to those who use credit.

Those are the elements which I think, Mr. Chairman, ought to be embodied in a final measure. This bill goes on that road, but it may be that it goes so far on that road that after you had gone a day's journey upon it, everyone would be inclined to sit down and pitch camp and not march any farther. And while in my opinion it is good as far as it goes—it is in the right direction and recognizes the facts, or most of the facts, to which I have referred—it is probably one of those measures devised by the author of the bill, who, seeing, or thinking that he sees, that at the present time the public mind is not prepared for a more radical and far-reaching measure, seeks to gain the benefit of some advance along the road toward a true financial system.

Mr. FOWLER. Mr. Secretary, you coupled with the United States notes and the silver burden the national-bank notes, which in the aggregate make something over $1,200,000,000. This bill provides for the deposit of a 5 per cent gold-coin fund for the current redemption of the notes issued under it. Where must this gold ultimately come from which is deposited for the current redemption of these notes?

Secretary GAGE. It must come either from the present disrtibution among the people or from the United States Treasury.

Mr. FOWLER. And in the last analysis?

Secretary GAGE. Undoubtedly from the Treasury. And upon that point I think I anticipate your question. I would be in favor of striking out the word "gold." I would not insist upon the deposit in the Treasury of this 5 per cent in gold. I will never admit, as long as I am connected with the Government, that there is anything better than that for which the Government stands responsible, whether it be

gold, silver, or any other evidence of money the Government puts out; and I will not by indirection suggest that Government forms of money, which the Government has outstanding, which it clothes with the power of legal tender, and for which it is responsible, are not good enough for all purposes of life. Nor that for this purpose, or any other purpose, gold is better; yet in my opinion the proposition is just as broad as it is long. If you require a deposit of gold for this 5 per cent fund, it probably will come from the Treasury, and in the place of the gold in the open Treasury will be substituted the Government forms of money. It does not make any difference.

Mr. FOWLER. Now, by way of illustration, Mr. Secretary, suppose a banker in Des Moines wanted to make good his 5 per cent deposit of gold coin with the United States Treasury. How would he probably do it?

Secretary GAGE. It is doubtful what he might do, but it would be quite open to him to send greenbacks, if he had them, and ask for their redemption and the deposit of the gold.

Mr. FOWLER. He might send a draft to New York, and have his banker go and get the greenbacks, and therewith procure the gold, might he not?

Secretary GAGE. That would be accomplishing the same thing by another road.

Mr. COX. By the way, could he not do the same thing with silver?

Secretary GAGE. He could not at the present time.

Mr. FOWLER. It is not at all likely that under any circumstances he would ship gold from any interior point, is it?

Secretary GAGE. It is not probable; he would do the cheapest thing which would secure the deposit of the gold as required, without doubt.

Mr. LOVERING. Then, Mr. Secretary, in place of the words "gold coin" in both the bank-note guarantee fund and the redemption fund, what would you say?

Secretary GAGE. I would say, "legal money of the United States." It is more a sentimental point than an important one; but, at the same time, I think it is a proper thing to do.

Mr. LOVERING. Mr. Secretary, is it your opinion that the time for the retirement of the greenbacks would be postponed by the enactment of this bill?

Secretary GAGE. I am a little afraid so. I am afraid that if this bill were inaugurated, and three years passed by, so that the banks got into the position which you provide they may get into—that is, unless you should repeal this bill—you would not be able to induce them to take a burden which in my opinion they must take in order to accomplish one of the objects that I name, to wit, to relieve the Government from the risk and burden of the redemption of the greenbacks and to carry them indefinitely without any cost in the way of interest to the Government. This would save the Government from any burden of interest in taking the greenbacks out of the field where they would threaten the Government Treasury with what used to be called the "endless chain," or the burden of gold redemption. I am afraid you would make the conditions so easy that the banks would be satisfied, and would not take up the additional load which I think they will have to take.

Mr. LOVERING. Do you think that the operation of this bill would be to increase what you have termed the "endless chain?"

Secretary GAGE. Not seriously, if at all. It is hard to measure it exactly.

Mr. LOVERING. Would it do so at all?

Secretary GAGE. I can not say. It is impossible for the mind to take in these collateral and incidental consequences. It can not do it. I do not think it will increase the burden of what you call the "endless chain" very much, if at all. Further than that I do not know; I can not say.

Mr. LOVERING. Then, antecedent to the passage of any bill providing for an elastic currency, you believe the greenbacks should be retired?

Secretary GAGE. I think so. I think it is most desirable to accomplish that end, and that it can be best accomplished in combination with a measure which takes in the whole subject.

Mr. PRINCE. Mr. Secretary, do you also think that it is desirable to retire the greenbacks before we pass any legislation making silver exchangeable for gold?

Secretary GAGE. No; I do not think it necessary. I think it would be better to make the two exchangeable regardless of whether you retire the greenbacks or not. But the retirement of the greenbacks, if it can be done without any particular sacrifice on the part of the Government, would be a helpful and a conservative act, in connection with the other.

Mr. PRINCE. One further question. Mr. Secretary, since March 14, 1900, what is the amount of greenbacks that have been presented to the Treasury for exchange for gold?

Secretary GAGE. I speak from memory. I think about thirty-five or thirty-six millions of dollars.

Mr. PRINCE. Has this amount of greenbacks which has been presented to the Treasury since March 14, 1900, in any way threatened the Government Treasury?

Secretary GAGE. No, sir. As we look at it, the best way in which we are able to trace it indicates that the greenbacks are sent in for redemption in gold for the purpose of paying operatives. A good many railroads pay their men in gold. The result is that the gold flows right around, and we get a correspondingly large increased revenue in gold; so that we may not be much the poorer, even although $37,000,000 or thereabouts have been drawn out. The circuit is complete. The gold flows around in a circuit. It goes from the railroads to the operatives, from the operatives to the merchants, from the merchants to the banks, and from the banks to the Government in order to get silver certificates; or it is paid in for revenue.

Mr. PRINCE. Another question, Mr. Secretary. I think you stated that you thought the greenbacks could be retired without any expense to the Government. Will you be kind enough to state more fully how that could be accomplished?

Secretary GAGE. I would a little prefer not to bring forward prematurely the general points which I would like to present, when I present them, in their consecutive relation to each other, in the form of a possible bill.

Mr. PRINCE. I beg your pardon; I withdraw the question.

Mr. FOWLER. Mr. Prince withdraws the question as a matter of courtesy.

Secretary GAGE. Still, I would not insist upon that.

Mr. PRINCE. Oh, that is right, Mr. Secretary. I had a theory of

my own along that line—that we probably had one hundred and fifty millions that we could use along that line, but I do not care to anticipate that question at all.

Mr. FOWLER. Mr. Secretary, if it were possible to assume that you, personally, as Secretary of the Treasury, could do either of these two things that you will, leaving the other undone, which would you do as being the most important—retire the greenbacks or make the silver dollar exchangeable for gold?

Secretary GAGE. I would make the silver dollar exchangeable for gold. I think that is the more important of the two.

Mr. FOWLER. You think that is more important than it is to retire the greenbacks?

Secretary GAGE. I think so. I think that is the greater duty of the Government. That is the point of view from which I speak.

Mr. FOWLER. From the point of view of the best interests of the Government financially, and of the country commercially, which would be of the greater importance?

Secretary GAGE. If you provided a system which would make good in the currency field what might be contracted from the greenback circulation, then I believe, commercially speaking, it will be better to withdraw the greenbacks.

Mr. LOVERING. Do you think there is any business necessity, prospective or otherwise, for providing for an elastic currency?

Secretary GAGE. I think there is. I think it is very great. I think it has existed for a long time. We have not realized it, because we have educated a generation on a different plane; and most of us therefore do not appreciate the value of a currency which can be made to expand and contract within the limits of perfect safety (which must always be considered) and yet which is to a large degree responsive to the industrial and commercial needs of the people.

Mr. LOVERING. I suppose you agree with many of us, Mr. Secretary, that it is not always possible to attain the ideal condition?

Secretary GAGE. That is unfortunately so, in all the relations of life.

Mr. LOVERING. And that this bill has been framed with the idea of going as far as we thought the public mind was prepared to go with us?

Secretary GAGE. I recognize that fact clearly. I have already said I thought it was in the right direction, and that it was formulated by the author with the limitations to which Mr. Lovering has just referred in his mind.

Mr. LOVERING. There is only one other point. I have adverted to the necessity of making the issue of national bank currency under this bill dependent upon or in some way tied to the bond issue; that is, I understand, so that the guaranteed bank notes shall not displace the bond-secured notes, and thereby force the bonds into the open market.

Secretary GAGE. Yes, sir; that is my thought. I would substitute the word "release" for your word "force," to avoid releasing from the banks too large a volume of bonds to be put on the market.

Mr. LOVERING. You say that you do not think this bill goes far enough. How far would you be willing to go, or how far would you deem it wise to go, in that direction?

Secretary GAGE. You mean to ask what is my ultimate thought as to how far we should go?

Mr. LOVERING. Yes.

Secretary GAGE. I think we should provide a system that would furnish sufficient inducements to insure responsiveness on the part of the banks, so that they would feel, if possible, the scheme of utility that we would lay out for them. I believe that such a scheme should be sufficiently attractive to induce them to carry any United States bonds and any United States greenbacks for which they should be charged with the burden of redemption—say, $500,000,000. And I think that for the difference between the $500,000,000 of Government securities they would have to carry as a basis of securities and the capital of the banks now existing or that might be organized (which I believe could be safely estimated at $1,000,000,000 in the course of three or four years) they should issue circulation under what we call the asset principle, furnishing guaranties in the form of a safety fund such as you have suggested or provided for in your bill. We provide for it through an annual contribution. You provide in this bill, I think, for a tax of one-half of 1 per cent on the bank issues.

Mr. LOVERING. Yes; that is to replenish the guaranty fund.

Secretary GAGE. Yes. Whether that is sufficient or not is a matter of theory. I believe it is; but I am now taking steps to review the history of the banking system of this country for thirty-six years. When it is finished I think I will be able to make a demonstration as to what would be sufficient—if the history of thirty-six years furnishes a basis for judging for thirty-six years to come, which I think we will all admit it would.

Mr. LOVERING. It would be very small, in your judgment, would it not?

Secretary GAGE. I think it would be quite small.

Mr. LOVERING. Then, Mr. Secretary, you would issue, under a bill, what would be a substitute currency rather than an auxiliary bank-note currency after you got up to the extent of $500,000,000, would you not? Then you would cut loose from the bonds, would you not?

Secretary GAGE. After the $500,000,000?

Mr. LOVERING. Yes.

Secretary GAGE. Yes, sir; and the balance of the circulation should be——

Mr. LOVERING. This bill is framed, as you are aware, so as to tie the issue of the bank notes to the bonds.

Secretary GAGE. Well, I would tie it to the other. I would make a condition precedent to the issue of what we will call asset currency (for the sake of giving it a name) the carrying of 50 per cent of the capital in bonds or in greenbacks, as I have already suggested.

Mr. THAYER. Mr. Secretary, what practical steps have been taken by your Department since last March to maintain the parity between gold and silver?

Secretary GAGE. We have received all that has been offered for taxes. That is all.

Mr. THAYER. Have you paid out any gold in exchange for silver on demand?

Secretary GAGE. No, sir; perhaps we have given somebody $1, or $5, or something of that sort.

Mr. THAYER. Has there been any presentation of silver and a demand for gold in exchange?

Secretary GAGE. No.

Mr. THAYER. How would the law directing you to exchange gold for silver facilitate that exchange over the present conditions?

Secretary GAGE. It would enable me to make the exchange if required, where it probably does not now.

Mr. THAYER. Will you explain a little further what you mean by the expression that "it probably does not now?"

Secretary GAGE. I mean that there is no express provision in the law authorizing the Secretary of the Treasury to give gold for silver.

Mr. THAYER. How do you interpret the direction to you to maintain the parity between them, if not in that way?

Secretary GAGE. We do not interpret it in the absence of enabling legislation.

Mr. THAYER. By that do we understand that you feel that you are unable, at the present time, to maintain the parity between the two except by further legislation?

Secretary GAGE. No; I think it is very certain that at the present time we can maintain the parity without the authority of direct exchange. But the world does not believe we always can. They doubt whether we always can. They fear that the time will come when the revenue from taxes will not be large enough, and the centers will be gorged with silver certificates; and they fear that then, without any direct exchange of gold for silver, silver may fall to some discount, less or great, measured in gold. This fact, this fear, this apprehension, this sentiment, affects the minds of the people—that is, it affects the minds of those who are responsible for carrying in their reserves what they consider the best money; and therefore they discriminate against silver. I do not want them to do that.

Mr. THAYER. Whom do you mean by "they?"

Secretary GAGE. I mean the bankers; but I do not mean that they are different from any other class of men in this respect, or that they are perverse in the matter. They are acting under the same law of human nature that governs the actions of everybody else. Given two things, one absolute and the other perhaps absolute, but carrying with it any shadow of doubt, the preference will be given to the absolute every time.

Mr. FOWLER. Let me interject a question here: Is it not the duty of any banker or any trustee to do that very thing, Mr. Secretary?

Secretary GAGE. I do not know that it is.

Mr. FOWLER. If there is a doubt about the equality?

Secretary GAGE. It is his duty to himself.

Mr. FOWLER. Well, is it not his duty to his creditors?

Secretary GAGE. I think it will be found he will pay them with the cheapest money he can pay them with and keep the best for himself.

Mr. THAYER. I noticed that you said that second to the authority to pay out gold for silver would be the retirement of the greenback. As the law now stands, what is the particular demand or benefit to the Government from the retirement of the greenback? What advantage would the Government gain by it, in your judgment?

Secretary GAGE. It would gain an advantage as regards the responsibility of maintaining gold payments on $346,000,000.

Mr. THAYER. But what are you going to substitute for that money?

Secretary GAGE. Bank notes, for the redemption of which, under this plan, somebody will be responsible who has the material with which to redeem them—either gold or good assets.

Mr. FOWLER. Assets measured in gold values?

Secretary GAGE. Yes, sir.

Mr. LEWIS. Mr. Secretary, in order to carry out this plan of yours

in the future, on what basis would you have these banks issue their notes—bonds only?

Secretary GAGE. As I have suggested here, bonds or Government obligations carrying no interest to the amount of 50 per cent of the capital of the bank. For the other 50 per cent, if they issued 50 per cent of the capital, in what are called unsecured notes; the assets of the bank and the safety fund would be the security.

Mr. LEWIS. The assets of the bank, and what else?

Secretary GAGE. And the safety fund to which they would all have to contribute.

Mr. HILL. Mr. Secretary, I am not a member of this subcommittee, but Mr. Fowler has kindly indicated that I might ask you a question. I notice you say that greenbacks can be retired without cost by the enactment of provisions of law by which the banks would be made to assume the burden (which you think they ought to take) of such retirement. I want to ask you a question or two in order to see if we can not retire them without cost without waiting for that happy day when we can have a bank credit currency to which I have been soundly converted during the last four or five years in this committee room. We have $150,000,000 of gold, have we not?

Secretary GAGE. Yes, sir.

Mr. HILL. Suppose you had authority to pay the greenbacks to-day; how much could you pay without any disturbance, using the reserve which is now put there to carry them—$200,000,000 or just $150,000,000?

Secretary GAGE. The Government could easily pay $200,000,000 by exhausting its gold reserve and reducing very much the cash in the general fund.

Mr. HILL. Would that lessen at all the volume of legal tender in the country?

Secretary GAGE. No; the volume outside the Treasury would be unchanged.

Mr. HILL. Not at all. In your judgment, how long would it take the other $146,000,000 to come in? You say there are $200,000,000 which are directly "get-at-able" now.

Secretary GAGE. Yes—nine or ten years.

Mr. HILL. Would that cause any embarrassment to the Government?

Secretary GAGE. Not if the revenues were respectably large as com pared with the expenditures.

Mr. HILL. Now, we have a law requiring $53,000,000 a year to be put in the sinking fund. We have been buying bonds and paying a considerable premium for them. I notice that the bonds to-day are at a price which will not net more than from 1¼ down to a half of 1 per cent interest. In your judgment which would be the better policy—for the Government to buy more bonds, or to pay the demand notes, using the reserve fund as a part of the instrumentality by which to do it?

Secretary GAGE. If I were the Government, I should pay the demand obligations.

Mr. HILL. Exactly. Do you not think that the establishment of any form of credit currency through the banks would be greatly expedited by entirely eliminating all the greenbacks from the field of currency, prior to such establishment?

Secretary GAGE. I am inclined to believe, without considering at

great length your question, that if the two could go along together it would be still better.

Mr. HILL. I fully agree with you; but the point I am trying to get at is whether it would not be easier to secure legislation looking to the establishment of a system of asset currency, with the field clear for it, than to wait until the two could be brought along together, in view of the conditions which make it entirely possible to pay the greenbacks, as you have indicated?

Secretary GAGE. I agree with you and with your suggestion; but it is my belief that it will be much more difficult to get legislation——

Mr. HILL. I am not speaking about the question of legislation. I am speaking about the advantage to the Government.

Secretary GAGE. I agree with you.

Mr. HILL. I think it is a very difficult job to get legislation for either.

Mr. COX. Mr. Secretary, I have been sitting here studying over one proposition of your theory, and I am not satisfied with it. You start this theory with issuing notes upon the assets of the bank. That is the main germ of the bill?

Secretary GAGE. Yes, a very important item in it.

Mr. COX. That is the bill, is it not? That is the germ of it?

Secretary GAGE. That is the bill; yes, sir.

Mr. COX. Now, then, there is a certain amount of notes which you are authorized to issue upon the assets of the bank?

Secretary GAGE. Yes.

Mr. COX. Now, in addition to that, you have the bonds of the United States to secure another circulation which the banks have; so you have there two circulations based upon different securities?

Secretary GAGE. Not necessarily. A portion of their circulation is based on one, and the other portion is based on the other, or both are based on these two jointly. There need not necessarily be any line of demarcation.

Mr. COX. Yes; we understand each other on that proposition. At any rate, to clear that point up as to the notes that are issued on the assets of the bank, there is nothing that is liable for them except the assets of the bank?

Secretary GAGE. And the safety fund.

Mr. COX. Oh, yes; the safety fund, of course. I include that in the thought.

Secretary GAGE. All right.

Mr. COX. Now, suppose a bank breaks, and it has out these two circulations. It has its safety fund for one, and its United States bonds for the other. The Government redeems its notes, those issued by authority of the Government. Now, will not the Government have the right to reimburse itself out of the assets of that bank before anybody else can touch them?

Secretary GAGE. It can be arranged on that plan; and, if the safety of the circulation required it, it ought to be arranged on that plan.

Mr. LOVERING. It is so arranged.

Secretary GAGE. It is so arranged in this bill. I do not believe it is necessary, Mr. Cox, in a properly arranged currency, to give the bill holder any priority of lien on the assets. I believe that the safety fund, together with a contribution in the way of taxes, which the

Government would hold as trustee (but not as guarantor), would be quite sufficient. I would withdraw the Government of the United States entirely as the guarantor of all the notes, whether secured by bonds or by assets.

Mr. Cox. So would I, if I could.

Secretary GAGE. It might be wise to continue to have the Government act as a trustee for all the people. But this fund, in my belief (and I think it can be demonstrated), would be sufficient, so that in case of a bank failure the Government, as trustee, would take right out of it, bodily, enough to redeem all the notes of that bank. Then it would prove a claim against the bank, along with other creditors; and all that it realized from the assets, proportionately to the other creditors, it would restore to the fund from which it had taken the face of the circulation.

Mr. Cox. I beg your pardon; I do not catch that quite clearly.

Secretary GAGE. Suppose a bank fails, and has $50,000 of circulation out. The Government would immediately charge that fund $50,000, and transfer that amount for a redemption fund for those notes. It would then immediately prove up a claim, as trustee, for the note holders, to the amount of $50,000 against the assets. Suppose it realized 50 cents on the dollar from the assets of the bank. When it did, it would restore to this safety fund $25,000, having taken fifty; and the general fund would get the benefit of all that was realized from the liquidation of that particular bank. Do you follow me?

Mr. Cox. Yes; I am quite sure I do, now.

Mr. LOVERING. The United States, in other words, shares ratably with other creditors?

Secretary GAGE. Yes.

Mr. Cox. Is that the theory?

Secretary GAGE. That is the theory in this bill.

Mr. LOVERING (reading from page 3 of the bill):

> And for this purpose the United States shall, on behalf of the bank-note guaranty fund, have a lien upon all the assets of the association ratably with other creditors of the bank.

Secretary GAGE. Does the Government guarantee the notes in your bill? Does it guarantee the credit circulation, or does it only act as trustee?

Mr. LOVERING. It only acts as trustee.

Mr. Cox. The language used there is "with other creditors of the bank;" but I do not make any point on that. My mind runs in this way, Mr. Secretary: A bank fails. It has in circulation, we will say, $100,000.

Secretary GAGE. Yes.

Mr. Cox. The bank fails. Under the present law, the bank has issued $100,000 of United States currency, as we will call it, upon the faith of the bonds; because we passed a law providing for its issue at par, you know.

Secretary GAGE. Yes.

Mr. Cox. It has $100,000. Now, the Government has to redeem and pay those notes in the first instance, and it goes back to the bank to be reimbursed. Suppose you find that the whole assets of the bank, outside of this safety fund, are only $100,000. Now, then, if the bank has an issue out based upon its assets, all there is to redeem that issue is this safety fund.

Secretary GAGE. Yes, sir. Understand that in all this talk we have supposed that all the issues of the banks would be limited by their capital.

Mr. COX. Yes; I assume that.

Secretary GAGE. Yes; there would be a limited liability on account of notes outstanding.

Mr. COX. Just one more question and I am through. This is the point in my mind: The bank has $100,000 of capital?

Secretary GAGE. Yes.

Mr. COX. It has in circulation $100,000 of national currency, based upon bonds?

Secretary GAGE. Yes.

Mr. COX. It then issues, we will say, $50,000 upon the assets of the bank. It has this little safety fund, whatever it may amount to?

Secretary GAGE. Yes.

Mr. COX. Now, the bank breaks. The Government has to redeem the $100,000 of notes and turn itself against the bank's assets for reimbursement. That is where it has to go?

Secretary GAGE. Yes, sir.

Mr. COX. Suppose, when it goes there and takes the assets of the bank, it finds that it has not more than $75,000 of assets. Now, my point is, where does that other $50,000 go? Of course there is that little safety fund. But who pays that? What becomes of it?

Secretary GAGE. All the other banks pay it.

Mr. COX. All the other banks?

Secretary GAGE. Yes; they have all contributed to a safety fund, and have formed a large fund amounting to millions of dollars—ten, fifteen, or twenty millions. A bank fails. It has $100,000 of circulation out. That $100,000 is charged to the safety fund, and is taken right over to the redemption fund, and the notes are redeemed. Then the Government, on behalf of the safety fund, makes claim against the bank and gets all the dividends that it can, be the same more or less, and puts them back into the safety fund. But the impoverishment of the safety fund is at the cost of all the banks that are issuing circulation.

Mr. COX. Well, Mr. Secretary, that must result in this, upon that theory, that each bank stands as security or guarantor for the notes issued by any other bank?

Secretary GAGE. Yes, sir; to an amount that is limited.

Mr. COX. I am assuming that, of course.

Mr. LOVERING. Does not the double responsibility or liability of the stockholders provide for the redemption of those notes?

Secretary GAGE. No.

Mr. FOWLER. It is for the creditors?

Secretary GAGE. For all other creditors as well.

Mr. COX. That is for the benefit of other creditors?

Secretary GAGE. Yes. It may interest you, Mr. Cox, if I tell you the result of a little examination I made.

Mr. COX. I would like very much to hear it.

Secretary GAGE. I took the history of banking in this country for thirty-six years, and assumed that the banks which have failed had all taken circulation on assets to the amount of 25 per cent of their capital; that the banks that have not failed were all so conservative that they did not take any of this kind of circulation, and therefore contributed nothing to the safety fund.

Mr. Cox. Yes.

Secretary Gage. I assumed that the only contributions made to this safety fund were made by these adventurous banks that took an ell if you gave them an inch, that kept their circulation out to the limit that I theoretically allowed them at that time, 25 per cent of their capital.

Mr. Cox. Yes.

Secretary Gage. That they had each of them issued notes; that they and they only had issued notes; they and they only had paid the tax, and that that tax had been 1 per cent per annum during their life, whether brief or long. Then (in this experiment) I made these notes a first lien upon the assets, and I found that the fund thus gathered from failed banks alone would have made good the deficiency twelve times over. Now, of course, if I had taken contributions from the solvent banks—because probably the failed banks, after all, are only a comparatively small percentage——

Mr. Cox. Oh, yes; I know.

Secretary Gage (continuing). Why, that would have been an enormous fund. And I am satisfied that when I complete these figures to which I referred a little while ago we will be able to form a pretty accurate judgment of what is required.

Mr. Fowler. I want to ask you to elaborate this point, Mr. Secretary: This fund which was created by the failed banks was only 1 per cent of the circulation annually, or 5 per cent to begin with?

Secretary Gage. One per cent annually.

Mr. Fowler. And you rested the whole case upon the 1 per cent annually?

Secretary Gage. Yes.

Mr. Lovering. There was nothing assumed as having been paid at the outset?

Secretary Gage. No; I think not.

Mr. Cox. I do not understand, in the case of which you speak, where a bank issued no circulation upon its assets, that it paid anything to the other banks?

Secretary Gage. No; it paid no tax.

Mr. Cox. It could not?

Secretary Gage. Only the failed banks paid.

Mr. Capron. I was desirous of asking simply this question, Mr. Secretary, whether or not, under this bill, it is your opinion that the banks would generally and voluntarily come into a system of this kind, by which all the banks become in a way insurers of the poorer banks. There is nothing compelling them to do it in the bill; so I was wondering whether, in your judgment, under the provisions of the bill they would come into this scheme readily and willingly?

Secretary Gage. I am inclined to think that those national banks now in existence would to a pretty good degree adopt the privileges which would be given them; but as I said a little while ago, you never can tell, you know. You can never tell what "the other fellow" will do, and the proof of the pudding is always in the eating; but I am inclined to believe that they would come along pretty well.

Mr. Lovering. They would not only come along in a time of redundancy of currency, you think, but in time of stress?

Secretary Gage. Well, if they came along, they would come along and keep their bills out all they could. One of the troubles of this bill and of our whole existing system, and one from which we can not

escape without further action of some kind, is contraction. There are two motives which must prevail for a proper system of currency. One is a strong motive to put it out; the other is a strong tendency to push it back. When these two forces are operating, there will be an equilibrium, and that equilibrium will be determined by the ability and desire of the country to use these instruments.

Mr. LOVERING. Do you think that the stimulus to the retirement of the currency lies in the tax that is placed on it?

Secretary GAGE. Yes, sir; that has a repressive tendency. I do not think it is sufficient, however.

Mr. LOVERING. But under this bill there are other inducements.

Secretary GAGE. I wish you would call attention to them.

Mr. LOVERING. Well, the mere idea that each bank is anxious to have its neighbor's bills restored, returned.

Secretary GAGE. That is not a very powerful motive, especially if the bank is obliged to have them retired at its own expense, by paying express charges on them.

Mr. LOVERING. This bill provides that they shall be retired at subtreasuries, at convenient points.

Secretary GAGE. I have thought about the problem of which you are now speaking—an influence to send them back—in connection with the somewhat inchoate ideas I have sketched here as to what was in my mind, and I have not solved it. But I am inclined to believe that in a final measure there would have to be some kind of a penalty put on the banks for carrying in their vaults beyond a reasonable period—say sixty days—the notes of other banks. They ought to push them back. They ought to send them back for redemption.

Mr. LOVERING. Would you provide that they should not pay them over their own counters?

Secretary GAGE. No. That is a good requirement in Canada, where there are only a few banks, with many branches, but it could not be made to operate here. To illustrate: Take a bank down in your section, where they are obliged to get their currency from New York, if you please, in their cotton season. They are obliged to take anything they can get that can be paid out, and if national-bank notes are sent to them by a New York bank they must be at liberty to pay them out. If they were forbidden to pay over their own counter any notes except their own, you can see what the effect would be. In Canada the idea is practicable, because there are only eight banks, each one of which has a multitude of branches, and they are all represented somewhere.

Mr. FOWLER. Mr. Secretary, right on that point: If you had a properly adjusted credit system, the banks in the Southern States or Western States would create their own currency. Would it not, therefore, be a proper limitation to say that the banks of the East (supposing the country were subdivided) should not pay over their counters notes that belonged in the West and the banks of the West should not pay out over their counters notes that belonged in the East?

Secretary GAGE. Well, there is a thought worth considering. I do not claim to have solved that problem, but I do think a repressive influence ought to be put on the banks in that particular. I believe such an influence can be developed, either in conformity with your suggestion, or in conformity with mine, or in conformity with the ideas of someone else who will put his mind to work on it.

Mr. Cox. Mr. Secretary, pardon me for asking you another question right along on that line. Take my country. We get our currency generally from Cincinnati and New York.

Secretary GAGE. Yes.

Mr. Cox. Now, say one of my banks—there are two in my little town, one of them a national bank—issues its notes, limited, of course, by the amount of its capital.

Secretary GAGE. Yes.

Mr. Cox. Do you believe that those notes would pass in the city of New York?

Secretary GAGE. Oh, yes, if they were redeemable at subtreasuries.

Mr. FOWLER. Just a question: If the law provided that any bank issuing notes must provide for their redemption at a financial center, would not that meet the requirement?

Secretary GAGE. That would make them go just as well as they go now.

Mr. Cox. Oh, yes; if you provide for their redemption at a financial center. But if you do that, you just take that much of your assets away to provide for their redemption, do you not?

Secretary GAGE. Well, you must protect your notes, if you give them out. Somebody must do it.

Mr. Cox. Oh, they ought to be protected. I do not insist on any other way; but I do not think it is practical.

Mr. FOWLER. Is there any other gentleman who would like to ask a question?

Mr. CAPRON. Just one question, which requires only a very short answer. Mr. Secretary, you have raised a vision in my mind this morning which has been dwelling there ever since the first day I had the honor of listening to you in this room some years since. Remembering the process through which this committee and Congress and the country have passed in arriving at such legislation as we now have, I wanted to ask if in your opinion the ideal currency bill which you hinted at in your statement this morning was possible at this time, and had better come along with the bill before us this morning, which would be a part of it? In other words, I wish to ask whether or not, in your judgment, it will be possible for us at once to arrive at the ideal or scientific banking and currency scheme or law, in a general bill, or whether we will be obliged to approach it by steps, in a halting way, which has been seemingly necessary in order to procure actual legislation in the past? Do you think we can get together upon one general scheme which will take in the standard, the parity of money, and the credit currency, which it will be possible to enact into law, with human minds to enact it?

Secretary GAGE. If I can answer your question generally, instead of with great specificness, I would say that I do not believe the broader measure which I have sketched in a way is at present attainable. I therefore believe that the consideration of a measure like this is valuable. I believe it would be a good thing to report this bill, because it will set people to thinking, anyway. It brings in suggestions. I suppose, practically speaking, there is little probability of this measure or any other drawn on similar lines becoming a law between now and the 4th day of March next. There are two kinds of values—a practical value and a moral value. I think there is a great moral value in considering this bill, and there would be moral advantages (interpret-

ing that word very broadly) in reporting it, letting the people read it, and letting them think about it. Of course we want to arrive at the truth of this thing. I believe we all do. I do not believe there is anybody around this table, and I do not believe there is anybody anywhere, who wants any financial legislation of this kind for his own benefit, or for the benefit of a class—banking, insurance, railroads, or anything else. We all desire that which it is best for the country to have, all things considered. This bill is educational. If it were even remotely probable that it would or could become a law at this session of Congress, it might be better to discuss more closely the question which you raise, viz, whether it would not be better to adopt this law as a "John the Baptist" to another law. I do not believe it is really necessary to discuss that question, however, because there is not any probability that it will become a law. Yet with all the human probabilities against its becoming a law, I think it would be a good thing to report it, and to make members (so far as they will) read it and think about it, and gradually we will come, at no distant day, to such a general comprehension of the question that there can be unity of action, as I firmly believe and trust there will be.

Mr. STALLINGS. Mr. Secretary, you said you thought it advisable to report this bill. Do you think it would be advisable to enact it into law?

Secretary GAGE. If I were in Congress I would offer a substitute. [Laughter.]

Mr. STALLINGS. I thought so, from your remarks.

Mr. FOWLER. Mr. Secretary, I would like to ask one question, which was suggested by what you said with regard to the moral purpose of this measure. That is whether, in your judgment, the passage of the bill of March 14, 1900, had any other effect than a moral effect, except to tie the hands of the Government more firmly than they were tied before?

Secretary GAGE. I think the effect was largely moral. At the same time it did put the Treasury in a great deal better position than before to meet theoretical possibilities.

Mr. FOWLER. Did it not facilitate the "endless chain," by limiting the amount of demand notes that could be impounded to $50,000,000?

Secretary GAGE. I do not see that it facilitated the "endless chain."

Mr. FOWLER. If the Government before could impound the whole $346,000,000, and now it can only impound $50,000,000, did it not facilitate the "endless chain?"

Secretary GAGE. Well, it impounds now, provided your revenues are equal to your expenditures——

Mr. FOWLER. But suppose they are not, and you are bound to force them back every time you get $50,000,000 in the Treasury. Did it not, to an almost immeasurable degree, destroy the power of the Government theretofore to stop the "endless chain?"

Secretary GAGE. Well, an argument might be maintained on that side of the question.

Mr. BROSIUS. Has every member of the committee who desires to interrogate the Secretary done so?

The chairman of this committee desired that every member of the committee should have an opportunity to interrogate the Secretary before he availed himself of the opportunity. The time has elapsed. The hour at which the subcommittee desires to adjourn, I suppose, has

arrived. I had intended availing myself of the courtesy of the chairman of the subcommittee to submit a few questions relating to the bill before us. The hearing this morning has been very interesting indeed; but if I may be allowed to say so, we have not discussed this bill much. I had several questions which I desired to ask. I read the bill over with care this morning for the first time, and I found some difficulty in the practical operation, or, in other words, the "workability," of the bill; and I would like to have the views of the Secretary upon some of those points. But the time has all been consumed. Is it the purpose of the subcommittee to have further hearings?

Mr. FOWLER. Not with the Secretary.

Mr. BROSIUS. I would not have him come here on my account.

Mr. FOWLER. I would suggest that you either go on now or that you submit your questions in writing and let the Secretary answer them at his pleasure—just as you see fit.

Mr. BROSIUS. I do not think they are of sufficient importance to submit them in writing to the Secretary.

Mr. STALLINGS. Mr. Chairman, we have time to let the Secretary answer this morning. I suggest that that be done.

Mr. BROSIUS. I have some difficulty about this: I am, of course, interested in some of the general propositions which have been discussed, about which, when we are up to them, I will be glad to ask the Secretary some questions. But we will waive those propositions now, and take a cursory view of this bill, to see whether it is "workable." And I confess that in carefully reading over the bill I experienced a sense (if my friend will allow me) of incompleteness—that is, of the omission of matters which would have to be supplied before the bill would be "workable" all around.

Now, to be just as brief as I can: Under the existing law, of course, the Government guarantees the redemption of national-bank notes. I was going to ask the Secretary whether or not he thought it was a sound principle for the Government to guarantee absolutely not only the current but the ultimate redemption of notes of failed banks?

Secretary GAGE. I think not.

Mr. BROSIUS. The question has really been answered by the Secretary in a former statement, in which he said that he would withdraw the Government as a guarantor from all our money. That, of course, would answer that question.

Now, I do not find in the bill any provision relating to worn-out, defaced, and mutilated notes. The notes issued under this bill would become worn-out, defaced, and mutilated just as the present notes do. But there is no provision in regard to them; and I did not know what disposition the author of the bill intended to be made of them.

Mr. LOVERING. The same provision that was made with regard to bond-secured notes.

Mr. BROSIUS. There is an express provision, directing explicitly what shall be done with them. But that does not apply to this bill.

Mr. LOVERING. No; but that may be incorporated.

Mr. BROSIUS. That illustrates the character of the points or inquiries that arose in my mind. That point is provided for, under the present law, in section 55, on page 16, of the new banking law.

Mr. LOVERING. If it is necessary the bill can be amended in that respect.

Mr. BROSIUS. Now, I go on. Do you think, Mr. Secretary, that

either the current redemption fund or the guarantee fund (there are two) should be a part of the legal reserve of banks? You know the 5 per cent redemption fund is now a part of the legal reserve.

Secretary GAGE. I think not.

Mr. BROSIUS. Well, there is no provision for that in the bill; and I did not know what the author of the bill had in his mind on that point.

Secretary GAGE. The national banking law provides, you know, that it may be counted as part of the reserve.

Mr. BROSIUS. Well, it is counted as part of the reserve.

Secretary GAGE. I do not think it ought to be.

Mr. LOVERING. You do not think it ought to be?

Secretary GAGE. No.

Mr. BROSIUS. Do you mean you do not think it ought to be under the existing law?

Secretary GAGE. I do not think it ought to be counted as a part of the reserve against deposits. I do not think it ought to, now. Still, that is only my opinion. Perhaps I am wrong.

Mr. BROSIUS. Now, this bill does not provide that the notes of failed banks shall be paid by the Treasury, as at present, so that there would be an interregnum where such notes would not be payable. Would not that be introducing confusion into our banking system and do us injury?

Secretary GAGE. Yes; that ought to be cured.

Mr. BROSIUS. Then, is not the proper way to cure that to provide, just as the present law provides, that the notes of failed banks shall be redeemed by the Treasury when they are presented, as they are now?

Secretary GAGE. Not just exactly, because that would make the Government responsible for them.

Mr. BROSIUS. How else can it be done?

Secretary GAGE. The Government can act as trustee. It can charge that fund——

Mr. BROSIUS. Certainly; they would do that up to the limit of that fund; but if that limit was exhausted, then there would be nobody to pay the notes, and the notes would be hanging.

Secretary GAGE. So they would.

Mr. BROSIUS. That is a calamity which I would avert, if possible, because I can see how that would affect the public mind.

Secretary GAGE. You must word it in such a way that there could be no contingency of that kind.

Mr. BROSIUS. If there could be no contingency of that kind, then of course the inquiry would possess no force. But, under the provisions of this law, I do not see that any provision is made for making an additional call upon the banks to replenish the guarantee fund in excess of one-half of 1 per cent. And if there could be a contingency in which that guarantee fund would be exhausted, a difficulty would at once arise unless the banks could be called upon for an extra contribution to the fund. In all our discussions heretofore upon that subject it has been contemplated that in case of the exhaustion of the fund an extra draft would be made upon the banks of an additional quarter or half of 1 per cent, or whatever might be necessary, to replenish the fund. But no provision is found in this bill for that. Now, ought there not to be some such provision? If it is never needed, it can do no harm; but if it should be needed it could do great harm if it were not supplied.

Secretary GAGE. I think it would be valuable to put in such a provision, provided you kept the power of assessment within a limit that the banks would be willing to face.

Mr. BROSIUS. Exactly; that would be a fact that would have to be reckoned with, of course.

Secretary GAGE. Yes.

Mr. BROSIUS. This bill provides that the amount in circulation to be taken out shall not exceed one-fifth (that is, 20 per cent) of the face value of the bonds deposited. Now, is it not possible that a bank might deposit those bonds, and take out no circulation at all but the guaranteed new circulation provided by this bill? Would it not be fair, or would it be unfair, to provide that a bank, before it could avail itself of the provisions of this bill, should be required to take out circulation up to the limit of the bonds that it deposited under the old system?

Mr. LOVERING. The bill distinctly states that in the second section.

Mr. BROSIUS. It does?

Mr. LOVERING. (Reading from section 2 of the bill:)

That guaranteed bank notes may be issued to any national banking association under the provisions of this act to an amount not exceeding one-fifth of the face value of the United States bonds on deposit by said bank with the Treasurer of the United States to secure currency notes issued under existing law.

Mr. BROSIUS. Oh, I know there is that provision; but the banks are not compelled to take out the notes.

Secretary GAGE. Can you not trust to the motive of self-interest operating on the bank?

Mr. BROSIUS. I do not know whether we could or not.

Secretary GAGE. Under this bill, suppose a bank put up 50 per cent of its capital (or whatever is required here) in bonds, and did not take any circulation on them, but issued a credit circulation, and then failed. The credit circulation would be a lien on the bonds only, under your bill.

Mr. LOVERING. It is intended to be.

Mr. BROSIUS. Oh, it would be a lien under any bill, because the bonds would be a part of the assets.

Secretary GAGE. And there is no conceivable motive on the part of a bank to have any quantity of bonds lying idle and abstaining from the privilege of issuing circulating notes on them, if it can make them stay out?

Mr. BROSIUS. Well, the banks will put them out if they will stay out, as they do now; and yet the banks have not issued all the circulation that they can under the bonds already deposited.

Secretary GAGE. There is no profit in doing it now.

Mr. BROSIUS. That shows that there is more money than can be used, does it not?

Secretary GAGE. It shows that there is not margin enough in their business to tempt them to do it. They do not try to put them out.

Mr. BROSIUS. Oh, I beg your pardon, Mr. Secretary; in the bonds already deposited there certainly is profit.

Secretary GAGE. Yes.

Mr. BROSIUS. It is an absolute loss to deposit a bond and not take out circulation, if you can use the circulation.

Secretary GAGE. I think there are very few cases where bonds are deposited as security where the banks have not substantially the entire circulation outstanding.

Mr. BROSIUS. The amount is not very large now, Mr. Secretary. I think it is four millions and upward. But I remember in——

Mr. HILL. Is not that covered by the peremptory law which makes every national bank take out a certain amount of bonds, whether it issues circulation or not?

Mr. BROSIUS. The banks must take out bonds, but they are not required to take out circulation; and my point was that being required to deposit their bonds they would do so, and then they would take out this new circulation to the amount of two-fifths of their bonds, without taking out any circulation under the old law. Now, whether or not there would be a sufficient motive to make them do that, I do not know. But I think I would require it. I was going to ask the Secretary if it would not be desirable to require them, as a condition precedent to availing themselves of the privilege afforded in this bill, to take out circulation up to the limit of the bonds already deposited?

Secretary GAGE. Well, I think they would do it anyway, and therefore it would be unprofitable to require it. But I can conceive that a conservative bank might put up its bonds, take out the circulating notes, get the privilege of issuing credit notes, and be so situated that it would never have any occasion to do it except in some emergency. Then it would be ready; and that would be the motive for getting in shape to meet such contingencies.

Take the case of the First National Bank, with which I was associated for a good many years. We put up the minimum amount of bonds required by law, $50,000. We had issued to us $45,000 of notes. The notes are in the vault of the bank yet. They never were paid out. The reason was because, in our particular case, our credit business (for that is what a bank does) can be transacted through the instrumentality of checks and book credits; and the margin of profit was not enough to induce us to assume the liability which was incurred in putting out our own notes, which we would have to redeem, you know, and take back.

Mr. BROSIUS. And paying a tax on them besides?

Secretary GAGE. And paying a tax on them. But in 1893, after eleven years when they never had been signed, things were pretty shaky, as you all remember. Deposits began to evaporate; and looking at the cash on hand, we realized that we had $45,000 which in the last event we could get people to take; so we signed them up and got them ready. But, thanks to the leniency of our creditors, we did not have to part with them; and it has them yet.

Mr. BROSIUS. In that contingency, Mr. Secretary, it was one of the most surprising things (and I remember directing the attention of this committee to the fact some years ago in a hearing) that in 1893, the very time when we were in the extreme pinch of our distress and our monetary difficulties, the national banks of this country were seven millions short of what they might have issued on bonds on actual deposit.

Secretary GAGE. Yes.

Mr. BROSIUS. That all appears in one of the hearings. I thought then that it was very strange. But I think now it only exceeds four millions of dollars.

Secretary GAGE. It is a very small percentage.

Mr. BROSIUS. It is very small now. Now, Mr. Secretary, the bill does not provide for what these notes shall be receivable.

Mr. LOVERING. Before you go on with that, would it not be a higher tax to take out the guaranteed notes than it would to take out the bond-secured notes?

Mr. BROSIUS. I think not.

Mr. LOVERING. Then, if that is the case, what reason have you to suppose that the banks would avail themselves of this act until they had availed themselves of their rights under the existing law?

Mr. BROSIUS. As I have already said, I do not know that there would be any motive for a bank to do so. The bill simply says the bank may do so and so. At the same time, I think I would make them patronize the present law for the sake of keeping them acquainted with the present law.

Mr. LOVERING. They would do what it is for their best interest to do.

Mr. BROSIUS. Now, the bill does not say for what these notes are to be receivable. Of course the existing law tells exactly what use shall be made of our bank notes; but this law makes no provision at all on the subject. You will see in section 63, page 15 of the new banking act, the provision made in the existing law, telling exactly what these notes are to be used for.

Mr. LOVERING. If it is necessary to do that, it can be amended.

Secretary GAGE. That provision can be put in; yes.

Mr. BROSIUS. Certainly; of course. I am only speaking of these things that are omitted, and can be put in, in order to have the attention of the Secretary called to them, and to have his views upon the subject. Of course that could be put in. I think it ought to be put in.

Secretary GAGE. These notes ought, perhaps, to be receivable by other banks.

Mr. BROSIUS. Oh, yes. I think they ought to be used in every way that our present bank notes are used. I do not know that there should be any distinction.

Mr. LOVERING. Personally, I am very thankful to the chairman for making these suggestions, or to any other member of the committee; and I want to say now that this is not such a hard-and-fast bill that it is not subject to all sorts of amendments or substitutes.

Mr. BROSIUS. I know Mr. Lovering will take kindly these inquiries I am making, because he would desire, as any of us would, to perfect the bill.

Mr. LOVERING. No one man knows it all.

Mr. BROSIUS. No.

Now, there is no provision in the bill for the disposition of the notes of liquidated banks. In section 70 of the banking law, as printed in the last act, which I find on page 18, there is this provision:

> Whenever the Treasurer has redeemed any of the notes of an association which has commenced to close its affairs, he shall cause the notes to be mutilated and charged to the redemption account of the association; and all notes so redeemed by the Treasurer shall every three months be certified to and destroyed in the manner described in section, etc.

There is nothing in this bill providing for the disposition of these notes. Now, I think that, as in the former case, might be supplied.

Secretary GAGE. Certainly.

Mr. BROSIUS. Because, in a bill like this, although it is only an amendment to existing law, we are obliged to make provision on a great many specific points, or else we are obliged to insert a provision making the existing law applicable to those points.

Secretary GAGE. That is true.

Mr. BROSIUS. Now, there is no provision in this bill for the redemption of incomplete notes. Under existing law that is fully provided for, and the Government is bound to redeem an incomplete note which gets out by any mistake or in any other way. I think the same provision ought to be made in this bill.

Secretary GAGE. I think Mr. Lovering will not question that.

Mr. BROSIUS. I did not suppose he would; but in running over the bill I just noticed these evident omissions.

I also noticed that in drawing this bill the author used different language in relation to the tax provision. I was wondering why that was done. I find it on page 20. I speak of this because I always think it desirable, in auxiliary legislation, to employ the language of the law as it exists, because we become familiar with it, and it has been crystallized into that form, and has possibly been adjudicated in that form, and it is desirable to continue it. The present law is:

In lieu of all existing taxes, every association shall pay to the Treasurer of the United States, in the months of January and July, a duty of one-half of 1 per cent, each half year, on the average of notes in circulation.

Now, the language of this bill struck me as being a little peculiar and a little uncertain:

That upon all outstanding guaranteed bank notes issued under the provisions of this act there shall be paid a tax equal as nearly as may be to one-half of 1 per centum per annum during the period for which such notes may be in circulation.

I think Mr. Lovering would be willing to just modify that so as to make it conform to the language of the present law. "As nearly as may be to one-half of 1 per cent" seems to be unnecessary. It would be better to say, "Every association shall pay to the Treasury of the United States, each half year, a duty of one-half of 1 per cent," etc.

Secretary GAGE. Yes. Then it will get it "as nearly as may be," anyhow.

Mr. BROSIUS. Yes. There is just one thing more. I will not detain you on many things that might be gone into with some elaboration. For instance, under the taxing provision there is no penalty for neglect or refusal to pay the tax. The tax provision is in section 5 of the bill. In section 81 of our law you will find this provision with respect to taxes:

Every association which fails so to make such return shall be liable to a penalty of $200, to be collected either out of the interest as it may become due of such association on the bonds deposited, etc.

It provides a penalty and a mode of collecting it. There is no penalty at all provided here; and if a bank does not pay this tax, what are you going to do? Of course, I suppose Mr. Lovering would see the propriety of adding that.

Mr. LOVERING. Those matters are the subject of regulations to be fixed by the Comptroller.

Mr. BROSIUS. The thought was in my mind that your idea was that in these respects these notes would be amenable to existing laws. The only difficulty is that the law does not contain that provision.

Mr. LOVERING. If it is your purpose to go on in each one of these cases, to refer to the specific language of the statute, that can be done.

Mr. BROSIUS. Several points of that kind occurred to me this morning, but I do not care to go into other general matters, which the Sec-

retary always makes exceedingly interesting. But if the bill is to be reported I think the author of it would desire to have these changes made.

Secretary GAGE. I have no doubt those suggestions will all be adopted.

The committee tendered a vote of thanks to the Secretary of the Treasury for appearing and presenting his views on the pending bill, after which, at 12.20 o'clock p. m., the committee adjourned.

WASHINGTON, D. C., *February 4, 1901.*

The subcommittee of the Committee on Banking and Currency, having under consideration the bill (H. R. 13803) "To make the currency responsive to the varying needs of business at all seasons and in all sections," met at 2 o'clock p. m., Hon. Charles N. Fowler in the chair.

STATEMENT OF MR. R. M. BRECKENRIDGE, OF NEW YORK.

Mr. FOWLER. Mr. Breckenridge, I sent you a copy of the Lovering bill the other day and called your attention to it, with a desire of having your views with regard to the measure, and particularly the principles involved in it, and to give you the privilege of discussing the questions involved in general or taking up the bill by topics, or in any way you see fit.

The characteristic feature of Mr. Lovering's bill, "to make the currency responsive to the varying needs of business at all times and in all sections," is one common to many of the recent suggestions for currency reform. The proposed measure involves an extension to the note issue of banking upon general assets, a method already followed with satisfaction and success in the development of deposit banking in the United States. The bill involves, also, a recognition of the essential similarity, from the economic view, of the promise to pay created by a book credit and the promise to pay engraved upon a bank note. In this respect Mr. Lovering and numbers of those whose criticism of American banking legislation has some claim to be called both authoritative and sane are in complete accord. Both recognize that the proper elasticity of a currency is dependent upon its being issued when trade of one kind or another needs it and upon its being retired when that need is past.

Elasticity of this sort is obtainable when notes are put out by banks only when their dealers have occasion to use such instruments of exchange. A complete correspondence in volume with the requirements of business is hardly to be expected when actuarial considerations or the question of profit upon investments in Government bonds or other special security is a factor in determining what quantity of notes a bank shall try to keep in circulation. If, within some such limit as the bank's capital stock, the only restraint upons its powers of circulation were the willingness of a bank's customers to take its notes, the continual adequacy of circulation in point of volume would be assured. And given facilities for redemption, a certain safeguard against the evils of inflation would be provided by the pressure of

each bank to get its own notes into the hands of the public and send those of its competitors home.

There are critics of the national-bank act, however, who would make the adoption of the principle of banking upon general assets logically complete. They would like to see the system of bond security wholly done away with. They find it objectionable on the ground that the bank-note circulation based upon bonds is inelastic, in that it neither expands nor contracts at the time or the place where such a movement of the circulation would best fill the requirements of business. Its variations are determined less by the activity of trade than the price and yield of Government bonds. Those communities most in need of a credit currency which passes from hand to hand without indorsement find themselves least able to make use of a bond-secured note issue. Interest rates in such sections being comparatively high, the sacrifice in taking out note circulation is much greater than in districts where the ruling price of discounts is more nearly in correspondence with the yield of Government bonds. And those commut nities again, where loanable funds are scarce, find themselves leas-benefited by the provisions of the national-bank act, because to take advantage of the issue provisions it is necessary to send out of the community more capital or loaning power than is brought back in the form of notes. This holds even under the amendment which permits circulation up to the par value of the bonds deposited.

If it be admitted that, however safe, the specially secured issue is incorrect in principle and injurious as well as inadequate in practice, it is hard wholly to commend any suggested legislation which looks to continuance of the plan. Whether the Lovering bill is intended merely as a preliminary step toward thoroughgoing reform, as an entering wedge for more comprehensive changes later on, is nowhere indicated in the draft. Considerations of political expediency may have dictated the modest scope of the changes and the small proportional volume of issue against general assets, even after the lapse of six years. What Congress may find well to accept and what to reject the layman has little means of judging. Were the present bill to be passed, however, a new principle would be given legislative recognition. There may be some room for doubt whether Congress, if it decides to adopt a partial application of the doctrine, might not also be willing to go the whole length. Unquestionably a well-rounded, symmetrical, thoroughly correlated measure would be preferable, though its adoption were delayed some years, to fragmentary legislation the enactment of which, even if it were a move in the right direction, would necessitate the reopening of the whole question after the trial in petto had turned out well.

But for the present the chief inquiry is whether the bill will accomplish the results desired. To make the currency responsive to the varying needs of business at all seasons and in all sections is a complex of several important ends. Could the result be achieved, the periodical plethora of funds in the financial centers when the interior has ceased to need currency for moving the crops would be avoided. Money markets at the foci of speculation and commerce would avoid recurrent gluts, and the interior would be spared a good part of the expense of shipping paper and coin back to New York or Chicago or some other reserve city after the demand for it was over. On the other hand, the autumn squeeze in money, long chronic in New York

as a concomitant of the drain of funds to the interior for the purpose of getting the country's harvests to market, might be escaped, and the agricultural industries be saved the expense caused by autumn hardening of the money markets generally in sympathy with that of New York.

In the second place, though this is but another aspect of the first advantage, a smaller movement of currency between the country and the cities would be necessary, and the economies thus made possible ought ultimately to be reflected in slightly lower charges for accommodation at the banks. Still another desideratum would be a reduction in the actual cost of effecting an expansion or contraction of the currency at a given time or place.

There would also be a saving in the expense interest on funds in transit and other items that always have to be considered and always have to be covered before a bank can make up its mind to increase the circulation in its own district.

Yet more important, if by currency we understand the author of the bill as meaning any instrument of exchange, would be the better distribution of those instruments which are based upon credit. This, in turn, would be followed by progress toward the equalization of rates of discount between different parts of the United States, a reform the more desirable as the present inequalities are persistent, unnecessary, and extreme.

That the Lovering bill is calculated to serve the purposes outlined in the preamble, if the statement of these purposes be interpreted in the broadest fashion, is open to some doubt. At the best, it permits a maximum expansion of the circulation of 20 per cent during the first three years the act, if passed, has force, and after six years an expansion of only 40 per cent. On the basis of the bank-note circulation January 31 this would mean some $69,200,000. I do not think it would be $69,000,000, for the reason that numbers of national banks have bonds on deposit for outstanding circulation in excess of 50 per cent of their capital stocks.

The limit upon the banks, so far as the new circulation is concerned, is, during the first three years, 10 per cent of their paid-in capital stock. So, even if they had 80 per cent of their capital stock deposited in bonds, they would be able to issue no more than 10 per cent of their capital in the new notes. As the circulation stood on January 31, I fancy the maximum would be no more than $55,000,000 altogether. Taking the figures as they stood early last September, the total increase would be $56,780,000. The possibilities of increase would lie thus: Banks of the central reserve cities, $8,678,000; banks of the reserve cities, $10,762,000; country banks, $39,536,000, with the great bulk of the power of increase among the country banks lying with banks of the New England, Eastern, and Middle States, these having $29,400,000 of the expansive power out of the whole $39,536,000. The South, exclusive of reserve cities, could increase but $5,782,000, and the Western group only $2,130,000.

It is possible that such an augmentation would fill the ideal requirements of expansibility, but the chance, viewed offhand, seems rather slight. The possibility of effecting the expansion by this device where and when it may be needed hardly appears complete. After the third or the sixth year, of course, when the banks are able to issue notes not specially secured for 40 and 80 per cent, respectively, of their bonds

on deposit to secure circulation, this criticism would lose much of its force, though even then it is doubtful whether the full degree of increase would be possible, especially in those sections where a larger circulation of credit is most needed.

The reason for such a qualification is connected with the degree of profit attached to the issue of bond-secured notes in sections of the country where the practice has not been followed to the full permissible extent. This unattractiveness of a bond-secured issue would persist under the Lovering bill, even though somewhat counteracted by a comparatively small gain which banks could derive from issue against their general credit. The inducement to issue in those sections would be less keen than it is in sections where the bond-secured issues had previously been more favored.

A second feature of the bill, the merits of which are far from plain at first sight, is the arbitrary relation established between the quantity of bonds a bank has on deposit to secure its notes, and the amount of paper which it may put out against its general credit. Thus, during the first three years the act may have force, a bank which has issued up to 20 per cent of its bond deposits must thereafter add $5 to its secured circulation for every additional dollar of paper it may wish to issue as not specially secured. For banks working where interest rates are low, this would be no particular hardship. There the bond-secured circulation proves fairly profitable. But the field of aleatory bond-secured issues is restricted. While banks in central reserve cities deposit bonds in excess of requirements to the extent of 3,000 per cent of the minimum, the excess deposited by banks in the reserve cities is only 300 per cent and by country banks but something like 140 per cent. Taken by States banks in Maine, New Hampshire, Vermont, Massachusetts, Connecticut, New York, and Pennsylvania had had excess bond deposits of 170 per cent and upward of the minimum last September.

Mr. LOVERING. In excess of their what?

Mr. BRECKENRIDGE. The minimum amount required. On a $50,000 capital the minimum is 25 per cent.

Mr. LOVERING. Why do you deal in percentages?

Mr. BRECKENRIDGE. I thought they provided the easiest way to illustrate the extent to which the banks went beyond the letter of the law in this respect. Where they have a large excess of bonds on deposit, it shows a willingness to exploit the bond-secured issue. If they carry no great excess of bonds over the required deposits it shows that they are unwilling to exploit the issue or that they can not do so to their own advantage.

In Louisiana, Wisconsin, Minnesota, Iowa, Mississippi, North and South Dakota, Nebraska, Kansas, Montana, Colorado, and other States, the excess ran from 50 to 100 per cent only; in Arkansas it was barely 2 per cent. These differences, taken in connection with tables of differences in discount rates between the several sections, suggest only too pointedly what the Indianapolis Monetary Commission clearly proved, that there is slight inducement to issue notes against bonds where discount rates are high. The banks there are best able to help their communities by keeping their capital at home as a reserve against book credits—lending three and four fold the original amount of cash. In such sections the practice of sending funds to the bond markets and getting notes of a total value less than the cost of the bonds is not

particularly favored; it does not pay. Relief for the borrowers in these neighborhoods could be obtained were the banks enabled to lend their credit in other forms than they now do in the shape of deposits against which borrowers may draw. In its practical aspect the relief would come as authority for note issue against general assets, and it would be the more effective as the note is reckoned in many such communities a vastly more acceptable and useful medium of exchange than the check.

That point could be developed at considerable length, but, after all, the gist of the question is that many such parts of the country or the principals in many transactions are unaccustomed to use checks or do not find it convenient to use them. Where checks are used, where they do serve the purpose, the banks have almost an unlimited field for expanding the circulation of instruments of credit used for the purposes of exchange. There is no restriction on them except the minor and comparatively unimportant restriction that banks shall hold certain reserves against their deposits, but an increase in reserve of $100,000 could be followed by an increase in loans and deposits resulting from those loans of $400,000. Parts of the country where notes are the popular and customary instruments for paying bills or for making trades do not have that advantage, and the banks have small facilities under the present national-bank act for effecting the expansion which the condition of trade in their neighborhoods from time to time demands. If they could say, "This man will bring us a bill of exchange on a produce buyer in Kansas City or a cattle dealer in Omaha, therefore we will lend him our credit until he puts the transaction through," it would be a different situation. They can not do that now, and in order for him to get the currency wherewith to go out and make his purchase of wheat or of live stock they must send into some reserve city for the greenbacks or the silver certificates and have them shipped out to their particular neighborhood.

Mr. FOWLER. Lend capital instead of credit?

Mr. BRECKENRIDGE. Lend capital instead of credit; exactly, so a provision which enables the banks to put out their general credit in form of notes as well as in form of deposits would be in a great measure a simple act of justice to the neighborhoods where custom or the undeveloped condition of the country, the sparce population, or one thing and another is against the use of checks.

The Lovering bill, however, couples permission to employ the needed device with the requirement that first five, then two and a half, and finally one and one-fourth times as much paper shall be issued of a sort such communities do not want.

Mr. LOVERING. But if they do not want it they would not take it?

Mr. BRECKENRIDGE. They do not want it because it is unprofitable. Yet, in order to get the kind of paper that they could use, to obtain what would be extremely useful and valuable in the development of their resources, they are to be constrained also to take out bond-secured notes.

Mr. LOVERING. You understand why they were yoked together in that way?

Mr. BRECKENRIDGE. Presumably to protect the investments of national banks in 2 per cent Government bonds. I suppose we have to concede that we have a very large quantity of Government bonds bearing a low rate of interest and about the only use for which is the secu-

rity for national-bank circulation. The Government appears to be committed for the time being to the continuance of that system of note security. The act of March 14, 1900, has wrought great complications in the situation for those who would like to see a system of banking upon assets, and banking only upon assets.

Mr. LOVERING. You mean by refunding?

Mr. BRECKENRIDGE. The refunding measures, yes. It is like lengthening the halter rope of a horse tied to a stake and then muzzling his mouth.

Apart from its regulating the volume of the unsecured issue by a form not determined by business needs, the Lovering bill would introduce a new element into a circulation the variety of which is already much too great. Treasury notes of 1890 are in process of elimination from a currency still containing gold certificates, greenbacks, national bank notes, silver certificates. gold, silver and copper coins. The proposed bank notes, further, would rest upon a different basis in point of security. They are not to be a first lien upon all the issuing bank assets, only upon that part of the assets in charge of the Government, which in case of liquidation is a surplus over the cost of redeeming the bond-secured notes.

Mr. FOWLER. With $346,000,000 of paper out and with $600,000,000 of certificates of $5 and $10, and silver dollars out, and with $350,000,000 in round numbers of national-bank notes out, the question is whether it is wise to add the credit currency without first eliminating the immense volume of currency now dependent upon the Treasury Department for redemption, and by such elimination make a more profitable field for the use of bank currency. With that amount of greenbacks, legal tender, and silver certificates, which are redeemable through various ways, for revenues, is it wise or is it not wise to issue in addition to that credit currency?

Mr. BRECKENRIDGE. If you have a good scheme of redemption you can depend upon it that the competition for this credit currency will soon drive it in if the volume be superfluous.

Mr. FOWLER. But is there any such thing in this country?

Mr. BRECKENRIDGE. The bill looks to a system of redemption and it seems to me quite possible that the subtreasuries would provide adequate facilities for redemption.

Mr. FOWLER. Would you make it possible to present them to every one of the subtreasuries?

Mr. BRECKENRIDGE. Yes, I should try to take advantage of all the provisions of the law.

Mr. FOWLER. Does not every dollar that you add to this burden in the way of credit circulation add one more dollar to the burden on the Treasury? The gold must ultimately come from the Treasury; the Government must furnish it.

Mr. BRECKENRIDGE. Yes, but we get the equivalent from the banks.

Mr. FOWLER. But if the banks are pressed.

Mr. BRECKENRIDGE. Then we get it from the Government.

Mr. FOWLER. Where will the Government get it?

Mr. BRECKENRIDGE. From silver certificates and greenbacks.

Mr. FOWLER. Every dollar of this burden rests on the Treasury?

Mr. BRECKENRIDGE. The Treasury is the custodian of the ultimate gold reserve in this country.

Mr. FOWLER. If you were Secretary of the Treasury, would you

facilitate the means for tapping that gold by making the notes redeemable at every subtreasury in the United States?

Mr. BRECKENRIDGE. A sound interpretation of the law would compel me to offer every facility for the smooth working of the credit business of the country, and a good system of redemption is absolutely essential to the success of credit business. I should think that consideration would cause the Secretary to redeem those notes at any of the subtreasuries.

Mr. FOWLER. That would be the interpretation of an advocate of a credit currency?

Mr. BRECKENRIDGE. Yes.

Mr. FOWLER. But would that be the interpretation of a financier who had to guard the gold of the Treasury?

Mr. BRECKENRIDGE. His purpose might be to lay obstacles and barriers in the way and to conserve rather than to dissipate the gold reserve. But the best safeguard after all would be confidence, and that would hardly be fostered by any such obstructive policy.

Mr. FOWLER. Is to preserve the confidence in the public the best manner?

Mr. BRECKENRIDGE. Confidence could never be shocked by the proper authority of the Government saying that every dollar was convertible into gold coin, and when you had taken that step, the fact that the Government was willing to expend its last dollar to protect its legal tender would maintain confidence. That condition would continue as long as the Government could furnish all the gold the banks want.

Mr. FOWLER. Would you say that the height of prudence would suggest, if not demand, that we shift the burden of gold redemption of bank notes to the banks by eliminating the greenbacks first?

Mr. BRECKENRIDGE. Whether I should do it first or not, I do not know. I should certainly think that the greenbacks ought to be retired, funded if need be, and more room be made for bank-note circulation.

Mr. LOVERING. Do you think it is easier to retire the greenbacks before provision has been made for another form of currency?

Mr. BRECKENRIDGE. The safest way would be to do those things simultaneously. The chance of contraction, or, better, the chance of the fear of contraction, so excites the popular imagination that I do not think any change would have much chance of success if we did not provide guaranties against anything of the sort happening. It seems unfortunate that the security provided for these notes is not similar to that of the bond-secured notes in so far as the bond-secured notes are a first lien against the assets. Of course, the question whether the assets of the issuing bank other than the bonds which it has on deposit should be used for any part of the circulation never comes up, but the law says that in case the bonds are not adequate, then the Comptroller of the Currency shall have a preferred lien against any other assets of the bank and against the double liability of the shareholders.

It may well be that this redemption fund of 5 per cent and the guaranty of 5 per cent, with a half per cent annual tax for its protection, will be wholly adequate to the redemption of the notes, for the amount that can be issued by any bank will be limited, and will never be over 40 per cent of its total capital stock. It might be more attractive to bankers, however, if they were to have some guaranty; it would be more attractive if they were sure that this annual contribution might

be reduced in time. The Canadian system, into which the safety fund scheme has been incorporated, provides that no bank shall be assessed in any year more than 1 per cent of its average circulation. This bill is more liberal in that regard. It makes the maximum that a bank can be assessed one-half of 1 per cent, and no special provision is made for the case of the fund being depleted.

Mr. LOVERING. Is that one-half per cent fully adequate?

Mr. BRECKENRIDGE. If the statistics of banks show that one-half per cent would be adequate, then the objection to not making the notes first liens against the assets is more sentimental than practical.

The only other point in which full commendation could be withheld is that part of the bill, it seems to me, where it is said that the Comptroller shall not be compelled to issue such guaranteed bank notes, if for any reason relating to the condition of the bank making application for such notes, or the general state of the circulation or the foreign exchanges, he shall deem such action to be inexpedient. The question arises here whether the Comptroller will be able to judge the general state of the circulation or of the foreign exchanges in such a way that his opinion on the important question of permitting or forbidding an increase of circulation would be well taken. The problem of the foreign exchanges is always peculiarly intricate and difficult. In like manner the state of the circulation is a thing which can not be described either offhand or after considerable deliberation as favorable or unfavorable. Whether the Comptroller has the wisdom to make the right decision in such matters has not yet been fully proved. I think that it would be preferable, in a great many aspects, if the question of the increase of circulation were allowed to be determined by the self-interest or the business sense of the people who wish to use notes and to the institutions which wish to issue them.

Mr. LOVERING. You would have the Comptroller or some one to determine whether the weak banks shall receive currency or not?

Mr. BRECKENRIDGE. Yes. It is not the power of the Comptroller to say whether this or that weak bank shall or shall not issue bank notes which suggests misgivings, but it is the proposal to give him power on general principles to forbid the increase in circulation.

Mr. LOVERING. Where would you leave that general power?

Mr. BRECKENRIDGE. The Comptroller of the Currency should not have it. I do not think any officer of the Government should be invested with that power.

Mr. LOVERING. Or any number of officers of the Government?

Mr. BRECKENRIDGE. It would be safer to leave the power with a number of officers of the Government, and so far as the records of former comptrollers is concerned, it might be safe enough with the comptroller alone, but there is a chance of an unscrupulous man obtaining the appointment to that office or the possibility that a man may be appointed comptroller who is susceptible to what are called in Wall street "market influences." The power which would lie in his hands could easily be exploited to the advantage of a clique of speculators. By inducing him to favor an increase of circulation, they might bring about conditions in the money market that would work much easier than it was before. By inducing him to forbid an increase of circulation the stringency might be so prolonged or aggravated that the designs of a clique operating on the short side of the market would be certain of success.

Mr. LOVERING. Then you would not limit the issue of such guaran-

teed notes, and have the bill read "if for any reason relating to the condition of the bank making application for such notes"—

Mr. BRECKENRIDGE. I should stop right there. Whether the general purpose of the bill to make the currency responsive at all seasons would be realized in full, I am uncertain, unless to the introduction of a credit currency, or of a bank-note circulation upon general assets, there were coupled the permission for banks to establish branch banks.

Mr. HILL. Is that necessary to a system of credit currency?

Mr. BRECKENRIDGE. No; but I do not think you can get the full advantage without it.

Mr. HILL. It is not necessary, but advantageous to its full development?

Mr. BRECKENRIDGE. Yes.

Mr. FOWLER. In order to secure the best results?

Mr. BRECKENRIDGE. Yes.

Mr. LOVERING. Do you think it would be necessary or desirable to have any other points of redemption than the subtreasuries in the United States—any clearing houses?

Mr. BRECKENRIDGE. That question could be answered better after the system had been in operation some time and the efficiency of that method of redemption tried. In Canada, the banks are obliged to provide for the redemption of their notes, practically in the principal city of each province. That clause of the law which was adopted in 1890 has kept the circulation of the Canadian banks at par in every part of the Dominion, though in some cases the domiciles of the notes are 3,000 miles apart. There are wildernesses and long stretches of not very thickly inhabited land between the places where most people live and work, but the notes of the old Bank of British Columbia circulate in Nova Scotia as freely as paper domiciled at Halifax itself.

Mr. LOVERING. At any considerable rate of discount?

Mr. BRECKENRIDGE. None whatever. And furthermore, there is not a difference of more than 1 or 1½ per cent between the ruling rates of bank discount in any part of the Dominion.

Mr. LOVERING. From the Atlantic to the Pacific?

Mr. BRECKENRIDGE. Yes; but the reason for that is that they have a centralization of control with a diffusion of banking facilities. With the help of this centralized power they are able to put the capital of the country in different parts of the land in such proportions that every one's needs are supplied at just about the same rate. There is no such difference in discount rates in Canada as there is in the United States, although the United States has the advantage of greater wealth and longer and fuller development.

Mr. FOWLER. If the Secretary of the Treasury did not see fit to extend the redemption of these notes to subtreasuries other than to New York, would you consider that New York alone was a sufficient place of redemption for all the notes of the United States?

Mr. BRECKENRIDGE. Having a redemption agency in New York alone would probably make redemption slow. It would make it less prompt than if there were less loss of interest involved in sending the note for redemption from the point where it was received. The real check upon currency issued against general assets is redemption and unless the redemption is prompt, easy, and cheap you are likely to have more or less redundancy. In this Canadian system the quality, prompt, easy, and cheap redeemability are obtained by insisting that

the issuing bank shall make arrangements at each business center of each province for the redemption of its own notes.

Mr. FOWLER. That is done every day?

Mr. BRECKENRIDGE. Yes. The Canadian banks find that their notes come back in from twelve to thirty days after the date of issue.

Mr. FOWLER. The average runs twelve to thirty days. In Scotland it is about eight or nine days?

Mr. BRECKENRIDGE. I am not sure as to the precise time, but the average circulation is not so long.

Mr. LOVERING. Is there any reason why the Secretary should limit the redemption to New York; you say if for any reason it should be done, why should they do it?

Mr. FOWLER. I would not do it if I were Secretary of the Treasury. As a credit-currency man, I should make the notes redeemable at every subtreasury. As Secretary of the Treasury, I should make them redeemable nowhere except at one place, because it would make every one of these credit obligations only an additional burden upon the Government.

Mr. HILL. You speak of the chance of contraction in the retirement of the greenbacks before entering upon a system of credit bank-note currency. We have now $150,000,000 in the reserve fund. We have a balance in the Treasury of $142,000,000, with a per capita circulation on the 1st of January, a month ago, of $28.19, and the Secretary of the Treasury stated here last week that he could pay in addition to the reserve fund $50,000,000 without trouble, making $200,000,000 of greenbacks that could be immediately paid off if the law so provided, and I asked how long it would take to get in the balance in case he was required to pay them all. His answer was from ten to fifteen millions a year, or about an average of ten millions a year. Do you think that the contraction under such conditions would be noticeable?

Mr. BRECKENRIDGE. I spoke of the contraction more as a bugbear than as an actual danger. I have no doubt that the redemption of the greenbacks might cause the exchanges to move somewhat in our favor or perhaps induce the import of gold. If we need that quantity of money in the ordinary transactions of course we are likely to get it sooner or later.

Mr. HILL. The first $150,000,000 would not make any difference?

Mr. BRECKENRIDGE. We would get the gold for the greenbacks.

Mr. HILL. The next $50,000,000 would come out of the funds now held by the Treasury?

Mr. BRECKENRIDGE. Yes.

Mr. HILL. So that would not make any contraction?

Mr. BRECKENRIDGE. No.

Mr. HILL. Now, if the balance did not come in at a greater rate than $10,000,000 a year, as the Secretary states, in his judgment, it will be impossible to get them in faster than that, in view of the fact that we now have $28.19 per capita circulation, and in view of the fact of the enormously increasing production of gold in this country would the contraction be felt, or, in your judgment, would it require any importation of gold?

Mr. BRECKENRIDGE. Whether it required any importation of gold or not would be practically indifferent.

Mr. HILL. Have you ever given any consideration to the volume of mercantile paper that is held outside of the banks? You are the statistical financial man of the Journal of Commerce, are you not?

Mr. BRECKENRIDGE. I am called financial editor of the Journal of Commerce. But I can not say how much mercantile paper is held outside of the banks. That a certain class of moneyed men buy such paper in considerable quantities is not to be doubted.

Mr. HILL. Is there an amount of paper held in New York and the other large cities of the countries all the time for collection?

Mr. BRECKENRIDGE. Unquestionably; but I do not know how great that quantity may be.

Mr. HILL. Has there ever been such an estimate made, to your knowledge? I do not mean only in New York, I mean in Chicago and San Francisco and the reserve cities of the country.

Mr. BRECKENRIDGE. I have never seen any such estimate.

Mr. HILL. Have you any idea of the amount of commercial paper outstanding in the country everywhere on the average?

Mr. BRECKENRIDGE. Not on the average. The reports of the Comptroller of the Treasury show how much paper is owned by the national banks at certain dates.

Mr. HILL. Simply the paper of the national banks?

Mr. BRECKENRIDGE. By the national banks. There is also a somewhat similar statement of the loans and discounts of the State banks. From that you could get a pretty good idea of how much commercial paper the State banks hold. The traditions and business practices of the State and national banks are pretty much the same.

Mr. HILL. That report shows all forms of loans, mortgage loans, and everything of that kind?

Mr. BRECKENRIDGE. That is differentiated, Mr. Hill. I looked into it a couple of years ago and I got together some averages at that time, which showed that the percentage of loans and discounts made by national banks on time against paper with two or more names in the cities of New York, Chicago, and St. Louis, in different years, was from 28.8 per cent to 35.6 per cent of the total loans.

Mr. HILL. Do you know how much in millions?

Mr. BRECKENRIDGE. I do not recall the figures.

Mr. HILL. In round numbers the commercial paper held in the reserve cities aggregated about $2,500,000,000.

Mr. BRECKENRIDGE. The national banks on the 13th of September had loans and discounts amounting to $2,706,534,000. About half of that, or 43 to 50 per cent, would be commercial paper bearing two names; 18 to 20 per cent would be the single-name paper, unindorsed paper, and the rest would probably be collateral loans.

Mr. HILL. What was the total amount?

Mr. BRECKENRIDGE. $2,706,534,000.

Mr. HILL. Fifty per cent of that, you think, would be commercial paper of two indorsers or more?

Mr. BRECKENRIDGE. Forty-five or 50 per cent.

Mr. HILL. How much of collateral?

Mr. BRECKENRIDGE. About 30 to 36 per cent.

Mr. HILL. Then 80 per cent of that paper, in your judgment, would be commercial paper either with good collateral or with one or more good indorsements?

Mr. BRECKENRIDGE. Yes.

Mr. HILL. That would be about $2,000,000,000?

Mr. BRECKENRIDGE. Yes.

Mr. HILL. In the national banks alone?

Mr. BRECKENRIDGE. Yes.

Mr. HILL. In the State banks probably as much more?

Mr. BRECKENRIDGE. No.

Mr. HILL. Half as much more?

Mr. BRECKENRIDGE. I can not say at the moment what per cent the State banks had compared to the national banks.

Mr. HILL. With $2,500,000,000 of commercial paper issued against actual transactions, either with good collateral or bearing one or two good indorsements, what better security could there be for a bank note issue than that $2,500,000,000 of paper?

Mr. BRECKENRIDGE. It is good, though not quite as good as Government bonds.

Mr. HILL. Is it not better, as it is not subject to fluctuation?

Mr. BRECKENRIDGE. I hardly think the quality better.

Mr. HILL. Now, then, can not there be a system devised by which that paper which is out of the possession of the owners and continually in the process of collection can be held through State or local clearing houses as security for note issues?

Mr. BRECKENRIDGE. I do not know whether a system could be devised. I think it likely enough that one could, but you could get the same results with the same security more simply by allowing the owner to issue the notes.

Mr. HILL. And hold the collateral in his own possession?

Mr. BRECKENRIDGE. Assuredly.

Mr. HILL. In my judgment the people of the country will never consent to any such proposition of a man giving his own note and holding his own security. With a volume of security infinitely beyond the amount of note issue that will be required in the country available for the purpose, why not utilize that security through a system of clearing houses.

Mr. BRECKENRIDGE. The bank holds the security for the deposits.

Mr. HILL. Yes, sir; but that is voluntary. The note is not a voluntary proposition, whether we take it or not.

Mr. BRECKENRIDGE. There is a certain conventional compulsion about accepting a note, and for that reason it has always seemed desirable to me that the note holder should be the preferred creditor against the assets of any bank that issues notes upon its general credit. If the quasi involuntary creditor on a note is protected ultimately by his first lien against all the assets of the bank, and if he is protected immediately by the ability to take that note directly to some fund and have it redeemed promptly, it makes no difference whether the issuer be bankrupt or not, so long as the security is complete.

Mr. HILL. Is not the trouble in such a system that the strong banks will not be willing to go in and make a guarantee fund to protect the weak ones?

Mr. BRECKENRIDGE. That has not been the trouble in Canada, where the system is in full force.

Mr. HILL. Is there not a vast difference between 15,000 banks in the United States and 37 banks in Canada, with several hundred branches, having direct supervision and control practically over the whole thing, and almost the same thing as if it were one bank? Is there not a vast difference?

Mr. BRECKENRIDGE. A difference, of course, but I do not think that the mere fact that we have clung to the system of small local banks in

this country is a bar to our improving the regulations of the issue system as we may see fit.

Mr. HILL. I would like to ask whether it would not be wise to utilize the system which has sprung out of business customs in the issuance of clearing-house certificates and utilize that system as a basis for bank-note circulation.

Mr. BRECKENRIDGE. I do not know whether the same end could be accomplished. It could be accomplished more simply with a first lien against the assets, a safety fund, and a provision for redemption either through the subtreasuries or through a regulation that forced upon every bank the making of some arrangement for redeeming its notes. The principal trade centers of the country could get a circulation that was perfectly safe and which would cause the Government not one cent of loss, and could be guaranteed at a very small expense.

Mr. HILL. But is it the business of the Government to guarantee the note issues of banks?

Mr. BRECKENRIDGE, Strictly speaking, no. And the simple guarantee of the banks who enter the system would doubtless be sufficient. That has been figured out to a nicety from the statistics of failed banks in this country with a circulation all the way up to 80 per cent of the paid-in capital stock. The possible loss and the possible impairments to the fund have been calculated, and it has been shown that the 5 per cent bank-note guarantee fund or safety fund would be adequate provision for maintenance of only about one-fifth of 1 per cent per annum.

Mr. LOVERING. Has it ever been in excess of one-tenth of 1 per cent since 1861?

Mr. BRECKENRIDGE. A fraction of 1 per cent and possibly a fraction of less than one-fifth of 1 per cent.

Mr. FOWLER. In your judgment would not the scheme of Mr. Hill's with regard to depositing the securities at clearing houses be a very great obstruction to anything like a true credit currency, using them as collateral and going through all that form?

Mr. BRECKENRIDGE. I think the fewer complications we have in a credit system the better it is likely to work. The bank which comes in close contact with all sorts of industrial and mercantile interests is the best judge when and how to issue currency in its own particular section.

Mr. HILL. You recognize the fact that these securities are in the hands of collecting banks in reserve cities. Do you think it would complicate the situation?

Mr. BRECKENRIDGE. I should say that only a comparatively small proportion of the total loans and discounts of banks are out of the hands of those who discounted them, by reason of their having been sent to reserve or other cities for collection. That you might call interstate traffic. A good deal of paper is negotiated in the first instance and held and paid in one town.

Mr. HILL. For instance, a man in Omaha has a note against a party in the city of Bridgeport, in Connecticut. What is the process? It is sent to his reserve bank in New York City. The New York bank sends it to its agency in Connecticut, at Hartford. The Hartford bank, not having a direct correspondent in the city of Bridgeport, sends it to its correspondent at the nearest point and it goes to the payee for collection, and the same process is repeated in returning the proceeds.

Under the system which I suggest, and which I am growing more and more favorably inclined to, the State of Connecticut would have one clearing house and everything would go there. It would be a clearing up of all the collections in the State. The State of New York would have another clearing house. Business would be done with far less complication and with greatly reduced expenses. There is a constant variety all the time of these notes for collection, varying only by the seasons of the year and by the conditions of trade. Why can not this be utilized to overcome the prejudice that is in the minds of the people that notes are being issued under this system, and that the man who issues the notes holds the security in his own hands?

Mr. BRECKENRIDGE. The varying volume of these notes in transit for collection or bills or drafts in transit for collection does not necessarily correspond to the varying needs for bank paper in local trade. The volume of interstate traffic and negotiable instruments is determined by one set of considerations. The volume of trade within a certain county or town may easily enough be governed by wholly different factors.

Mr. FOWLER. Is it not true, Mr. Breckenridge, that true bank-note currency is one that springs out of current transactions?

Mr. BRECKENRIDGE. Yes; it has to.

Mr. FOWLER. And has nothing to do with a reserve of notes, but is the product of the business relations of men?

Mr. BRECKENRIDGE. You get true elasticity when a trade made which calls for a note brings forth a note.

Mr. FOWLER. Instead of a check?

Mr. BRECKENRIDGE. Yes; and when a trade is completed the note goes back to the bank. Such an ideal has been realized, and such an approximation might be realized in the United States if we were willing to extend the principle of issuing bank notes against assets. I do not think that we could go the whole length of obtaining better distribution of the country's loaning power until we had branch banks. There is already a very pronounced tendency toward the establishment of branch banks.

Mr. FOWLER. Without giving any names, are you advised of the fact that such a principle is virtually in operation to-day through the control of banks by an ownership of a majority of the capital stock?

Mr. BRECKENRIDGE. Within the reserve cities, and also to some extent in various other cities, certain capitalistic interests are believed to have large interests, not only in banks of their own town but also banks in other cities.

Mr. BROSIUS. Do you think it practicable to introduce a branch banking system in connection with our free banking system and run the two systems together?

Mr. BRECKENRIDGE. I do not see why not.

Mr. BROSIUS. Would it not lead ultimately to the impairment, if not the total destruction, of the free banking system? In other words, supposing a big bank establishes its branch in a small town where there is a national bank, would not that branch bank run out the national bank?

Mr. BRECKENRIDGE. Not if the local and independent bank could be of service as good as that of the branch bank. If the national bank were an incapable and a feeble instrument, I have no doubt that the branch bank would run the national bank out. If the national bank

can justify its claim to existence in competition, then the national bank will stay; otherwise not. So far as the freedom of banking is concerned, I think the only significance pertaining to the phrase "free banking," in this country, is that which refers to the right of anybody who fulfills the requirements of law to start a bank. Now, if we permitted branch banks the right to establish branches it would have to be coupled with requirements that the banks that go into the business should have a little larger than the minimum capital of $25,000. The right of entering the business of banking would still be open to persons who had the means and could satisfy the Comptroller of the Currency that they were acting in good faith. I think there is more capital now embarked in the banking business than would be necessary under the branch system.

Mr. Brosius. This is the only country in the world in which a free banking system exists, and the question would arise whether we desired to continue our free banking system or whether we desired a different system—the branch banking system. I am quite sure that the branch banking system, if permitted, would largely destroy the national banking system; and some think that is desirable, but I do not. A large banking concern could establish branches in smaller places and could conduct the business more economically than the national banks, and in consequence the national banks would be destroyed. I want your opinion whether the two systems could work together without destroying the national system.

Mr. Breckenridge. I have seen branches of large banks set up in towns alongside of comparatively small local banks and both surviving, both thriving.

Mr. Brosius. Was it a branch of a national bank?

Mr. Breckenridge. No.

Mr. Brosius. Was it a branch of a State bank?

Mr. Breckenridge. No; it was in a Canadian town.

Mr. Brosius. There are only 45 banks in Canada—Mr. Hill says 37—and 35 have branches and 10 have no branches, but there is not a small bank of less than $500,000.

Mr. Breckenridge. There are some of the banks in the maritime provinces that conduct a local business that have not yet been destroyed by the large banks.

Mr. Brosius. There are only 45 banks, and they are chartered by special charter, and they can all charter branches.

Mr. Breckenridge. Some of them have opened very few branches.

Mr. Brosius. Ten of the banks have not established any branches at all; 35 have established branches.

Mr. Breckenridge. There are some little local banks operating now under the Canadian law, but perhaps it is due to the local loyalty to local institutions in their particular communities that they have managed to thrive these many years.

Mr. Brosius. How are they organized?

Mr. Breckenridge. They have provincial charters confirmed under Dominion law which antedate the confederation.

Mr. Brosius. Something has been said about a true bank note. What do you mean by a true bank note or a true bank-note currency?

Mr. Breckenridge. I do not know whether I used that expression or not. I should say that a bank-note currency, a true bank-note currency, is one consisting of the bank notes issued without special security.

Mr. BROSIUS. A true bank-note currency is one which best subserves the purposes of its issue; that is a true bank-note currency.

Mr. BRECKENRIDGE. It depends what the purposes are.

Mr. BROSIUS. It is for the purpose of serving the commercial community.

Mr. BRECKENRIDGE. Yes.

Mr. BROSIUS. So that the best bank-note currency is that system of currency which best subserves the purpose for which a bank-note currency is established?

Mr. BRECKENRIDGE. Yes.

Mr. BROSIUS. Mr. Hill has given you some figures—two billions of commercial paper held by the banks of the United States, with a view to showing that that two billions of commercial paper would be ample security for the notes issued by those banks. Now, does that fact, assuming that there is that amount of commercial assets in banks, justify the issue of notes by the banks without further security?

Mr. BRECKENRIDGE. I should not say that that alone would justify the issue of notes without other security.

Mr. FOWLER. What do you mean by further security?

Mr. BRECKENRIDGE. Why, that we must take some precautions against fraud and against errors of judgment, etc. If all this commercial paper were absolutely sure of being paid when it was due, and if the transactions from which this commercial paper arose also required the use of bank notes, then I would say we might issue bank notes to the full amount of the commercial paper held. But as a matter of precaution, and for the purpose of keeping on the safe side, we should limit a bank-note currency to the amount of the capital stock of the issuers.

Mr. HILL. That the $2,500,000,000 would justify the $2,500,000,000 of bank notes? I had no such thought. My idea was that the security would be far in excess of any possible note issue.

Mr. BROSIUS. You mean to convey the idea that that vast amount of assets would be ample security for the bank notes that the banks would issue?

Mr. BRECKENRIDGE. I should say also the capital stock——

Mr. BROSIUS. Would the banks that held the $2,500,000,000 of this commercial paper have any lien upon the property of the commodities that had figured in all these transactions?

Mr. BRECKENRIDGE. In very many cases I think they would have.

Mr. BROSIUS. In what cases?

Mr. BRECKENRIDGE. In the case, for example, of a loan against a warehouse receipt.

Mr. BROSIUS. Or against a bill of lading that accompanied the note?

Mr. BRECKENRIDGE. Yes.

Mr. BROSIUS. But in all other cases they have no security; it is personal security.

Mr. BRECKENRIDGE. Yes.

Mr. BROSIUS. Now, supposing the parties are not good, there is no property anywhere you can get hold of?

Mr. BRECKENRIDGE. Yes.

Mr. BROSIUS. Where?

Mr. LOVERING. These people's property.

Mr. BROSIUS. But suppose it is covered by a lien and sold by the sheriff to pay some other obligation; you have the personal security

of the persons whose names are on the notes, haven't you? If they are good—if they have property enough so that nobody else gets it before the bank gets it—it is all right, but you know also that somebody else may get possession of the property before the bank gets it.

Mr. BRECKENRIDGE. We have to take those things as they come. The fact that there are a few banks still in the country shows that the security, generally speaking, is good.

Mr. BROSIUS. The fact that in the aggregate the assets of the banks would be ample security for the aggregate of notes that would be issued by the banks does not prove that in the case of a particular bank there would be any security at all for the notes it would issue. That particular bank might hold paper that was not good. What security would there be for the notes issued by that bank? Except in the case of the system of the bank guaranteeing all the banks, do you think the $2,500,000,000 assets would be available in the case of any failed bank?

Mr. BRECKENRIDGE. But the mutual guaranty is an essential part of the scheme.

Mr. FOWLER. Unlimited or limited by the 5 per cent fund?

Mr. BRECKENRIDGE. Experience warrants the adoption of some limitation.

Mr. BROSIUS. If I should buy a horse and give my note for $100 to you and should sell that horse to Mr. Fowler and take his note for $100, and he should sell that horse to Mr. Hill and take his note for $100, and Mr. Hill should sell that horse to Mr. Lovering and take his note for $100, there would be five notes out for that one horse?

Mr. BRECKENRIDGE. Yes.

Mr. BROSIUS. That horse would not be available for any of those notes; that horse would not be available for the payment of any of those notes from the bank; the bank would not loan on that horse?

Mr. BRECKENRIDGE. No.

Mr. BROSIUS. The paper given for that horse would not be adequate security for bank notes issued by the banks unless the maker of the note was good or the indorsers or the names on the paper were good?

Mr. BRECKENRIDGE. No.

Mr. BROSIUS. Then the security after all in that case depends upon the solvency of the bank's debtors?

Mr. BRECKENRIDGE. There is a defect with that illustration. It is the assumption that the bank is going to discount all those notes. If the bank did it would be encouraging note kiting and might soon or late get itself into hot water.

Mr. FOWLER. If each man was worth a hundred thousand dollars it would be a good note?

Mr. BRECKENRIDGE. Yes.

Mr. FOWLER. Is it not to be presumed that the cashier of a bank, examining and determining security every day, will take nothing but good notes? Is not that true?

Mr. BRECKENRIDGE. It depends upon the man. The notes bought by a competent cashier are likely, most of them, at any rate, to be good.

Mr. BROSIUS. Do you not think that is a very violent presumption in view of the fact that banks are discounting notes and are losing money? Do you know how many were charged up to the New England banks in one year; how many of the notes were worthless because the personal security was good for nothing? Now, when you are

engaging in the business of bank notes, do you not think there should be some better security than the assumption that banks are going to be conducted by wise men? Do you not think there ought to be something better than that assumption as a basis for security in view of the fact that if there is a loss you have to lose it?

Mr. BRECKENRIDGE. There is no assumption underlying this Lovering bill or the general theory of issue against general assets that all paper discounted by banks is good.

Mr. BROSIUS. That all bank cashiers are infallible. If there is not that presumption, what security is there?

Mr. BRECKENRIDGE. The certainty, to borrow a phrase, that you can fool some of the people all the time and all the people some of the time, but you can not fool them all, all the time.

Mr. BROSIUS. A part of the time is long enough for you to lose the notes you have.

Mr. BRECKENRIDGE. Taking it through three decades and more, as it appears the country over, the business of banking has been conducted with a considerable degree of judgment, skill, and success, and banking has been profitable to a reasonable extent. Most of the national banks have been able to pay dividends.

Mr. BROSIUS. And that in spite of losses?

Mr. BRECKENRIDGE. Yes.

Mr. BROSIUS. Taking the history of the national banks in the United States?

Mr. BRECKENRIDGE. Yes; and a note which was a first lien against the assets of the issuer or which is otherwise protected by a redemption fund, a safety fund, or a guarantee fund, would have been good, at any time, these three decades through.

Mr. BROSIUS. Do you think a guarantee fund will be necessary?

Mr. BRECKENRIDGE. Yes; as a matter chiefly to give absolute safety. I think in most cases a first lien against the assets of an issuing bank would be adequate protection.

Mr. BROSIUS. Do you think that would be true in nine cases out of ten?

Mr. BRECKENRIDGE. Yes.

Mr. BROSIUS. But there might be a case where it would not be, where the rascal runs away with the whole business, and in that case the note holders would have to fall back on the 5 per cent?

Mr. BRECKENRIDGE. Yes.

Mr. BROSIUS. To complete the security it would be desirable to have the fund.

Mr. BRECKENRIDGE. The currency ought to be surrounded by all possible safeguards.

Mr. BROSIUS. After we have done our best in the direction of safety in all ways, accepting the system of assets and the safety-fund system and so on, there will still be a residue theoretically of risks.

Mr. BRECKENRIDGE. Humanly speaking, I would say there would be no question of risk; it is practically eliminated.

Mr. BROSIUS. Suppose the guarantee fund should become exhausted; there is no provision in this bill except one-half of 1 per cent. Suppose there should be an epidemic among the banks.

Mr. BRECKENRIDGE. There was one in 1893.

Mr. BROSIUS. Suppose the guarantee fund should fail and the holder of some note could not have it redeemed. Would not there be that theoretical possibility?

Mr. BRECKENRIDGE. We could have no worse panic than we had in 1893; it was never so widespread among the banks as it was then.

Mr. BROSIUS. But we had our security then.

Mr. BRECKENRIDGE. Even in 1893, taking all the bank failures that occurred then, a guarantee fund would not have been exhausted. The principal purpose of the guaranty is not the ultimate security. The ultimate security is the assets of the issuing bank. The guarantee fund is the means of protecting the holder of the note from any discount by reason of delay in redemption, by reason of the time required to realize upon the assets of the failed bank.

Mr. BROSIUS. Of course, you are establishing the necessity of having that guarantee fund?

Mr. BRECKENRIDGE. Yes.

Mr. BROSIUS. I am asking, even having that, there is still a theoretical possibility of somebody sustaining a loss in case the funds should be exhausted. You are reasoning, and other gentlemen have reasoned, from the amount of loss sustained by our banks in the last thirty years in our bond-secured system to the loss that could be fairly apprehended in the next thirty years under a different system. I do not think that is sound reasoning, because we had only a small per cent of losses under that system which was calculated to restrain banks and to make them cautious by requiring them to put up bonds to secure their issue. That is no measure at all of the amount of losses that would be sustained when banks did not have to do that.

Mr. BRECKENRIDGE. You forget, I think, that under a system of issue under general assets there exists a daily check, a very exacting check, which the banks are not now obliged to submit to. It would be in the interest of each and every bank to strive, day in and day out, to get the public to accept its own notes and to turn in for redemption the notes of strange banks which might be paid in across its counter, and, as the inevitable result of such a system of issue, you would have to arrive at some scheme or other for effecting a daily exchange of such notes, offsetting them against each other so far as possible and settling the balances. The bankers would meet and offset each other's notes in part, but they would have to pay the balances resulting from these exchanges in cash. Any paper currency ought to be and should be redeemable, upon demand, either in legal money or in gold coin. The bank which issues such paper must be vigilant, watchful, and careful in nowise to extend its circulation beyond the limits of safety. I am not sure that the requirement of the immediate redemption each day of its note issues is not a more practical and more potent monitor than the need of buying a few Government bonds. Those people who are moving along the lines you indicate are not spinning theories wholly in the air, for they have seen successful experiments with such a system in other countries.

Mr. BROSIUS. There is not any other country like this.

Mr. BRECKENRIDGE. Not just like this.

Mr. BROSIUS. The banking system of no other country on earth would work in this country as satisfactorily as it does in the country where it is now worked. In other words, the Canadian bank system would not be well for us.

Mr. BRECKENRIDGE. I see no possible objection to the introduction of something like the Canadian banking system in the United States. In point of fact, the Canadians have borrowed many of their best

ideas from American precedents, and a scholar in Kingston was able some time ago to show a very striking similarity between the charter of the first bank of the United States and the charter of the bank first started, some time afterwards, in Canada. It is known that they got the idea of their redemption system from the United States, and that their safety fund was a direct copy from the experience in New York under the old safety-fund system. It is known, too, that the Canadians have tried the system of bond security. That was done in the Province of Upper Canada between 1850 and 1860, the scheme being afterwards abandoned.

Mr. BROSIUS. They came within an ace of adopting our bond system?

Mr. BRECKENRIDGE. It was considered in 1850, in 1860, in 1870, and in 1871.

Mr. BROSIUS. And some of the financiers advocated it?

Mr. BRECKENRIDGE. Yes.

Mr. BROSIUS. Assuming that there is a remnant of risk, that somebody has to take in the issue of bank notes on whatever system you may adopt—excluding the present system, as there is no risk—or there is a risk that the Government takes——

Mr. BRECKENRIDGE. I do not call that a risk.

Mr. BROSIUS. It is still a remnant of risk?

Mr. BRECKENRIDGE. I concede that there is a theoretical risk.

Mr. BROSIUS. Now, who do you think ought to carry that risk, the power who authorizes the issue of that currency or the people who are compelled to take it in the transactions of business?

Mr. BRECKENRIDGE. I can not assume a practical risk, under the conditions stated; the risk is substantially eliminated.

Mr. BROSIUS. You can entertain an assumption?

Mr. BRECKENRIDGE. There is a possible risk that the Government of the United States may go into bankruptcy.

Mr. BROSIUS. You can entertain an assumption whether you think it is warranted in fact or not. In other words, assuming that there is a risk, who ought to carry that risk; the people of the United States, who, by and through their Government, authorized those notes to be issued, or you and Mr. Fowler, who are compelled to take them? Who should carry that risk, if there is any?

Mr. BRECKENRIDGE. I should prefer to avoid a Government guaranty.

Mr. BROSIUS. The State of New York, when it was operating a safety-fund system, found that the State broke down and that the note holders lost a large amount of money, and the legislature of the State of New York thought that it was not fair to let the holders of the notes suffer that loss and appropriated money enough to cover the loss. Do you think that was in conformity with the correct principle?

Mr. BRECKENRIDGE. No.

Mr. BROSIUS. I had hoped that you would answer that question differently, because the American people have a sense of fairness and justice, and if you could get the consensus of opinion there would be a wild clamor in favor of the Government of the United States guaranteeing every dollar that it authorized to be issued for use as money among our people. The power that issues the money and tells me to take it ought to guarantee me against that loss.

Mr. BRECKENRIDGE. The Government compels no man to take anything which is not legal tender. So far as the reimbursement of the

note holders of the safety-fund bank in New York is concerned there is this much to be said. The legislature passed a bill which went farther than the framers of the bill intended. The guaranty was applied to all the debts of the bank instead of to the liabilities upon the notes alone. Had the safety fund been applied only to the redemption of failed banks' notes there would have been no restitution necessary. The safety fund would have been more than sufficient to pay off the notes.

Mr. LOVERING. Notwithstanding the exceptions you have taken to this bill, Mr. Breckenridge, I would like to ask if you regard it as safe as far as it goes?

Mr. BRECKENRIDGE. Yes; safe.

Mr. LOVERING. It does not go as far as you would wish?

Mr. BRECKENRIDGE. It stops considerably short of what reforms I should consider extremely desirable and advantageous.

Mr. LOVERING. You still believe that elasticity in the currency is important to the business of the country?

Mr. BRECKENRIDGE. We could get along without it, but the country would get along much better with some currency possessing elasticity and based rather upon the commercial needs than the Government bond business.

Mr. HILL. Did I understand you to say that, in your judgment, greater relief would be furnished in time when relief was needed by a comprehensive system of branch banks than by a system of asset currency?

Mr. BRECKENRIDGE. I made some such comparison. I suggested that the system of currency issued against assets ought properly to be combined with the system of branch banking. I am inclined to think it unlikely that the notes against general assets loans will suffice to correct the inequalities in discount rates which exist between different centers of the country. The situation has improved somewhat since 1897, but for five years prior to that time there were such differences between Eastern and Southern and Western cities of the country that from 1893 to 1897 Boston had an average rate of 3.8 per cent; Buffalo's rate ran up to 6 per cent; in Charleston, S. C., the rate was 7 per cent; in Birmingham, Ala., the rate was 8 per cent, and in Denver the average rate of discount on first-class paper, bearing two names, was 10 per cent.

Mr. HILL. Do you not think that situation would be relieved by a system of branch banks even under our present condition of State and national banks?

Mr. BRECKENRIDGE. I think that branches would afford a deal of relief.

Mr. HILL. I find that you are right; there were 6 of the 38 Canadian banks as reported in 1896 which had taken charters under the old law; but I notice another thing: The Bank of France is reported as $36,500,000 capital, with $800,000,000 note issue.

Mr. FOWLER. Now it is a billion dollars.

Mr. HILL. Have they increased the capital?

Mr. FOWLER. No, sir.

Mr. HILL. I notice that two-thirds of the issues of the Bank of France are to be covered by commercial paper of not to exceed three months' time, to bear one or two indorsements. In your judgment, is that an entirely safe proposition without any guaranty fund?

Mr. BRECKENRIDGE. Where you have a great central bank and

where it is under Government supervision, I do not think it would be unsafe. I do not think it would be practicable in the United States, however.

Mr. HILL. Supposing the same system of note issue existed here, that collection notes were deposited with local clearing houses, and the local clearing houses were required to guarantee a national redemption bureau, entirely independent of the Government, would not the supervision of the local clearing houses and their own liability of loss be a sufficient guaranty to the national redemption agency to justify the redemption of their notes that could be issued under the plan? Would they be apt to take paper issued without regard to securities and give their guaranty to a national redemption bureau that they would redeem the notes in gold without some supervision? If they were in the same clearing-house organization, would not self-protection be a sufficient inducement to cause a supervision that would make the note issue absolutely safe?

Mr. BRECKENRIDGE. It is possible.

Mr. HILL. You think it would require, then, even aside from that, a guaranty fund and a tax to maintain it?

Mr. BRECKENRIDGE. In 1837 the whole Mississippi Valley was mad over land speculation; and at that stage they had not even a State clearing house.

Mr. FOWLER. But, as a matter of fact, the Ohio system and the Indiana system both went through the panic and maintained gold payments?

Mr. BRECKENRIDGE. The bank of Indiana did. That project of investing the power of issuing in clearing houses is one that would need more examination and study before I could speak to it with any confidence.

Mr. HILL. The thought I had in my mind and on which I wish to have your advice is not that the clearing houses should issue the notes, but that within the limit of banking capital the bank should have the right to issue its notes to the amount of its capital, with a deposit of a sufficient amount—not an equal amount, but if necessary double the amount—of its issuing power, with clearing agents, or a guaranteed redemption bureau, independent of the Government, and through that guaranty, with a deposit of security in the local clearing houses, notes should be redeemed. That is what is floating through my mind, and whether it would be possible to organize such a system as that is what I am trying to ascertain.

Mr. BROSIUS. That means the organization of all the banks through clearing houses, so that all the banks practically become the guarantors of all the notes.

Mr. HILL. I do not care whether they are all or one; I think they would all come in. Have you ever given it any thought, Mr. Breckenridge?

Mr. BRECKENRIDGE. No.

Mr. HILL. Mr. Gilman is the author of this, but perhaps Mr. Fowler elaborated it before Mr. Gilman did.

Mr. BROSIUS. I want to say to Mr. Breckenridge that I find he is correct about the few small banks that he referred to in Canada. I find in one of the discussions of the subject there are said to be half a dozen banks whose capital is less than $500,000. My recollection was at fault.

Mr. FOWLER. Please state the circumstances under which these local

small banks work in conjunction with the branches of the larger banks in Canada.

Mr. BRECKENRIDGE. These small Canadian banks are survivors of the period before the passage of the British-North America act; they were organized to do local business in the first instance, and they have in most cases ever since worked along those lines. They seem to have so strong a hold upon the hearts of the neighborhoods in which they are active, or are so well adapted to their purposes that they have survived with a considerable degree of prosperity, even when subjected to the competition of branches of stronger and larger institutions. It is not to be denied that the typical Canadian bank has branches and very considerable capital, and that there is a tendency toward the reduction of the number of banks in the system is quite apparent.

Mr. FOWLER. Do you think that the thirty-five years of experience with the secured currency in the United States furnishes any basis upon which to construct a theory of credit money? Can you say that it would make any difference with the discretionary wisdom of a cashier or a discount committee as to the soundness of the credit they would take whether the currency was secured or credit currency?

Mr. BRECKENRIDGE. None whatever.

Mr. FOWLER. And the banker loaning money would be just as careful to make a safe loan under one condition as the other?

Mr. BRECKENRIDGE. It seems to me he would still be keen for the profit and still be anxious to avoid the loss.

Mr. FOWLER. I suppose you think that the data furnished by the banks in the United States for the last thirty-five years would be proper data for the purpose of constructing a system of credit currency?

Mr. BRECKENRIDGE. So far as risks were concerned I should say the data would be excellent and trustworthy. The average banker is hardly likely to become dangerous or foolhardy upon his field of usefulness being enlarged.

Mr. FOWLER. What, if any, difference is there in a bank with a hundred thousand dollars of deposits subject to check and a bank with a hundred thousand dollars of notes outstanding?

Mr. BRECKENRIDGE. Notes against its general credit?

Mr. FOWLER. Yes.

Mr. BRECKENRIDGE. The essence of liability would be the same. The difference is one of form, and were the system operated or regulated with a view to the public convenience, the difference would be one which arises simply from the varying public needs.

Mr. FOWLER. The notes would be as safe as the deposits, would they not?

Mr. BRECKENRIDGE. If the bank was solvent.

Mr. FOWLER. You must assume in that respect they are the same. The notes would be as safe to hold?

Mr. BRECKENRIDGE. Assuredly, except for the chance of loss by theft, in which case the notes could not be traced, while the deposits could.

Mr. FOWLER. If there is no difference in the liability of a credit and the liability of a note, what is the objection to giving a bank with practically unlimited capital—say, $50,000,000—the right to a practically unlimited note issue?

Mr. BRECKENRIDGE. I think traditional caution in such matters would dictate the submission of any issue privilege to some limitation.

Experience and the judgment of Europe as expressed in its bank legislation, and the judgment of practically every other country in which the subject has been treated, are all in favor of some limitation of the right of issue—some statutory limitation of the right of issue. It may not be wholly necessary, but it is eminently safe.

Mr. FOWLER. Do you believe that it would be unwise for the United States Government to authorize a bank with fifty millions of capital to issue an amount of notes five times its capital, conditioned upon the current redemption of the same in gold coin?

Mr. BRECKENRIDGE. That question really raises the whole issue of a central bank.

Mr. FOWLER. Supposing we made that law in the United States, and then by evolution we should have ten or twenty banks of the same size, would it do any harm?

Mr. BRECKENRIDGE. That is a very difficult situation to picture. I should think, if I had anything to say about the matter, under such circumstances I should prefer to restrict the note circulation to some such sum as the capital of the bank, and then if you preserve the feature of an additional liability equal to the orginal subscriptions to the capital stock, you would run very slight risk of the assets of the institution being inadequate to redeem its outstanding paper.

(Adjourned.)

FEBRUARY 7, 1901.

The subcommittee of the Committee on Banking and Currency, having under consideration the bill H. R. 13303, met at 11 o'clock a. m., Hon. Charles N. Fowler presiding.

STATEMENT OF MR. HORACE WHITE, OF NEW YORK.

Mr. FOWLER. I will say at the outset to Mr. White that he may take the thought in the bill as a suggestion and discuss the principles of it, or he may take the bill up and discuss it by sections, according to his own pleasure, and after he has finished his general talk we may like to ask him some questions.

Mr. WHITE. I would say in the first place that I am in favor of the general principle of a credit currency; that is, a bank-note currency issued on assets, and I think that that is the only way we can ever have in this country what is called a flexible currency, a currency which will expand and contract at all seasons of the year in accordance with the demands of the public for a proper medium of exchange. At the same time I am still more in favor of a sound currency, a currency about the goodness of which there can not be any doubt, and if I had to choose between a secure currency and a flexible currency I should choose the secure currency without any hesitation. But the question is, How can we make a secure currency which shall be based upon assets; how can we make a currency which will be safe beyond peradventure?

I consider it not only necessary that the currency should be secure, but that it should be known to be such to the community, so well known that nobody will ever question it and nobody will ever refuse a note, and that no question will ever arise in anybody's mind whether it is good or not. In other words, I am not in favor of any currency which

is less secure and less free from doubt than the currency we now have. Can that kind of a currency be obtained when based upon assets only? It can be obtained if the Government guarantees the currency and takes the necessary means to secure itself. It might be obtained by a series of clearing houses throughout the country which could guarantee all the banks in those clearing houses, and see to it that all the currency should be issued under the regulations prescribed by law. It may be secured by one bank so large that no doubt will ever arise as to its goodness, such as the Bank of England or the Bank of France. It may be done by the Canadian system where there is a series of banks with very large capital having branches distributed throughout the country. I think that one or the other of those systems would be necessary to establish a bank-note credit currency in this country. My own preference would be to have a currency guaranteed by the Government, the Government taking measures to secure itself out of the assets of the bank. That would be a matter of detail which I am not prepared now to go into. Those are my general views on the subject. Now, if you will permit me to do so, I will look at some of the sections of this bill.

Section 2 provides—

That guaranteed bank notes may be issued to any national banking association under the provisions of this act to any amount not exceeding one-fifth of the face value of the United States bonds on deposit by said bank with the Treasurer of the United States to secure currency notes issued under existing law, but such guaranteed bank notes shall not be issued to any amount in excess of 10 per centum of the paid up and unimpaired capital of said bank.

That restricts the right to issue guaranteed bank notes and notes secured by assets to banks which now issue notes secured by bonds on deposit in the Treasury.

Mr. BROSIUS. Are you not a little in error in that statement. Only banks which have bonds on deposit can avail themselves of the provisions of this bill, whether it has issued any circulation on the bonds or not, because you know the law does not require a bank to issue currency.

Mr. WHITE. The bank must have deposited bonds to secure currency notes.

Mr. BROSIUS. That is right, but the law does not require a bank to issue currency.

Mr. WHITE. It struck me that that clause would throw out the right to issue guaranteed bank notes by the large city banks which do not now issue currency at all, and that that was a defect, because those are the very banks that might issue notes with the greatest security by reason of their large capital.

Mr. CALDERHEAD. Did we not have some time ago a statute that required the Treasury Dapartment to keep the notes for those banks on hand all the time so that they might obtain and issue at once when there was a call for circulation?

Mr. WHITE. I do not recall any such law. There was, and may be now, a requirement that every bank shall deposit a minimum sum of United States bonds whether it issues notes or not.

The third section provides—

That every national bank association issuing guaranteed bank notes shall pay into the division of issue and redemption in the office of the Treasurer of the United States a sum in gold coin equal to five per centum of its outstanding guaranteed bank notes.

According to the first section of the bill the bank would thereupon have the right, if the Comptroller of the Currency approved, to issue an amount of notes equal to 10 per centum of its paid-up and unimpaired capital. Now, suppose that only one bank should go into this scheme, the amount of gold coin deposited under this provision as a guaranty fund would be only 5 per centum of the amount of notes to be issued.

Mr. LOVERING. Will you allow me a moment? That condition was considered in drawing this bill, and a provision might be written into the bill which would put it in force only at such time as a given number of banks should have acceded to it. It would be a perfectly proper amendment, and should be in the bill, and I see the force of it, although the risk would be correspondingly small.

Mr. WHITE. Certainly.

Mr. FOWLER. That amendment would not be necessary if the notes were a first lien on the assets?

Mr. WHITE. It might or might not be.

Mr. BROSIUS. There might not be any assets when you came to settle up.

Mr. WHITE. We ought to take an extreme case in order to test the bill.

Mr. LOVERING. That is perfectly proper.

Mr. FOWLER. I should be willing to test that observation on all the failed banks in the United States.

Mr. LOVERING. That has to be based upon a large general average.

Mr. WHITE. Yes, sir; that is my idea.

Mr. BROSIUS. In testing this question on general averages and aggregates, in view of the nature of our banking system where each bank stands upon its own bottom, can we arrive at a safe conclusion by reasoning from general averages and general aggregates? For instance, take all the assets of all the banks. If they could be put up as a guaranty for all the notes of the failed banks everybody would say at once that that would be ample security, but the notes of one bank might still be unsecured, because the assets in that bank may be all gone, stolen and carried away, and unless the aggregate assets or a guaranty fund were provided for the notes of that particular bank, why, it would be no argument at all to say that the aggregate assets were two billion and a half of dollars. You must show that the assets of that bank are so secure that they can not get away. The assets supply the guaranty fund?

Mr. WHITE. Yes, sir; of course.

Mr. BROSIUS. Can you arrive at any conclusion as to whether the notes of a particular bank are secure by reasoning that the general aggregate assets of all the banks are secure, when they can not be used as the security for that particular bank?

Mr. WHITE. I think we can rely upon the experience of the past, and I think that the statistics which have accumulated at the office of the Comptroller of the Currency show that if we had had a credit currency from the beginning of the national-banking system to the present time the notes of failed banks would have been paid out of the assets plus a small guaranty fund if the notes had been the first lien on the assets.

Mr. LOVERING. The Secretary of the Treasury stated that it would have been twelve times over.

Mr. WHITE. That is a mere matter of statistics.

The fourth section of the bill provides that in case of a bank failure the Comptroller of the Currency shall collect for the benefit of this guaranty fund—

from the assets of the bank and from the stockholders thereof, such sum as, with the bank's balance in the bank-note guaranty fund, shall equal the amount of its guaranteed bank notes outstanding.

The sentence which I have last read, standing by itself, would give the Comptroller of the Currency a first lien on the assets of the bank and the stockholders' liability, "he shall collect from the assets," etc.; but the next sentence says:

And for this purpose the United States shall, on behalf of the bank-note guaranty fund, have a lien upon all the assets of the association ratably with other creditors of the bank.

That sentence qualifies the preceding clause so that it does not have the first lien on the assets.

Mr. BROSIUS. Not first, but ratable?

Mr. WHITE. Yes, sir. I call attention to that paragraph as apparently confusing.

Mr. LOVERING. In actual effect it would be collected ratably.

Mr. WHITE. I think that bank notes should be the first lien on the assets of a bank. It is not generally a matter of choice with people to accept a bank note or not to accept it, especially with the laboring class, who have to take whatever the employer gives them, because if they refuse they are liable to lose their positions. Besides, the public generally are not able to judge of the solvency of a bank. Therefore I think that bank notes ought to be a first lien on the assets.

Mr. FOWLER. They are, under our present system?

Mr. WHITE. They are, under our present system. The law of Connecticut has been so since 1831, that of New York since 1842.

Mr. CAPRON. You would strike out the clause that makes it ratable?

Mr. WHITE. I should strike out the last sentence of that clause.

Mr. BROSIUS. It occurred to me that that clause was put into this bill out of deference to a sentiment which I think is becoming more and more prevalent—that it is an injustice to depositors to give bank notes the first lien upon the assets of a bank.

Mr. WHITE. I know there has been a conflict of opinion on that point from the beginning, but the idea that bank notes should have a first lien on assets has prevailed in the legislation of the country, and rightly so, I think.

Mr. BROSIUS. Our Comptroller has discussed that proposition and has argued with more or less force the claim of depositors to have an equal chance with the note holders on the assets of the bank.

Mr. WHITE. The present Comptroller?

Mr. BROSIUS. Yes, sir.

Mr. FOWLER. But under the present law certain assets of the bank have been taken out and set aside to secure the notes.

Mr. WHITE. Yes; but suppose you have a great war and the bonds go down to 50 cents on a dollar, you still have the first lien on the remaining assets to secure the notes, so the law says.

Mr. BROSIUS. Under the existing law.

Mr. FOWLER. Can you distinguish, Mr. White, between a bond-secured currency having this right of first lien and a credit currency having the first lien?

Mr. WHITE. No; there is no difference.

Mr. BROSIUS. There is no difference in principle, there is some difference in practice perhaps, because now in practice the depositors get all that remains in a bank, because the bonds are always more than enough to pay the notes, and they are in the hands of the Government and can not be gotten away with; so that what there is left in the bank, after somebody has stolen all they could carry away, goes to the depositors?

Mr. WHITE. That is quite right.

Section 5 of this bill provides a new tax upon the notes in circulation, which tax is to be levied in a certain way. It is hardly necessary to read that section. I have no criticism to pass upon it.

Mr. BROSIUS. That section provides for a half of 1 per cent tax, and it does not make any provision for any additional assessments in case the guarantee fund should become exhausted. I will refresh your recollection of the discussions had heretofore upon this question. There nearly always has been in contemplation an additional tax assessed to a certain point to be available in case of the exhaustion of the guarantee fund. Now, if that guarantee fund is exhausted, and the half of 1 per cent does not replenish it, the whole thing falls.

Mr. WHITE. I think that is a sound criticism.

Mr. BROSIUS. And it occurred to me that a certain limit up to 1 per cent might be desirable for the benefit of the public, and that it might also be desirable to have some provision for an increase of that per cent, in case it should be necessary, to keep the guarantee fund intact.

Mr. WHITE. I think you are right. I think the plan adopted by the Bankers' Association of Baltimore in 1894 did contain a provision of that kind.

Mr. BROSIUS. A provision of that kind was contemplated in all the discussions years ago.

Mr. CAPRON. An additional tax?

Mr. BROSIUS. In case of the exhaustion of the guarantee fund to provide for an additional assessment upon the banks to replenish it.

Mr. LOVERING. As a matter of fact, do you not think that one-half of 1 per cent would be ample to establish the fund at the outset?

Mr. WHITE. Yes, sir; if a large number of banks went into the system.

Mr. LOVERING. There would be no use of the bill otherwise.

Mr. WHITE. Section 9 provides that 5 per cent additional shall be paid to the Treasury of the United States for current redemption. That is a repetition of the existing law and is all right. And "guaranteed bank notes shall also be redeemed in gold coin on demand at the counter of the issuing bank." That is in accordance with the existing law also.

Mr. BROSIUS. This current redemption fund is required by the bill to be in gold?

Mr. WHITE. Yes, sir.

Mr. BROSIUS. Both funds? Do you not think it is desirable to have that current redemption fund in gold?

Mr. WHITE. I should think that if it said "lawful money" that would answer the same purpose, because the bank has greenbacks which it can present to the Treasury and ask for gold.

Mr. FOWLER. The Government must carry the burden under the bill.

Mr. CAPRON. The Secretary of the Treasury stated that he would discriminate in the bill in favor of one kind of money against another.

Mr. WHITE. I think that is idle.

Mr. LOVERING. It is not only idle, but it is discriminating against one kind of money.

Mr. BROSIUS. Section 10 provides for the character of the notes. Do you not think it is desirable, Mr. White, to unify our money as much as possible? We have a great many kinds of money now. This bill provides for still another kind of paper money, different from all the others, to be known as "guaranteed notes."

Mr. WHITE. I think that is a sound criticism.

Mr. BROSIUS. If there was any way that these notes could be issued in the same general character as our present bank notes, I think it would really be better than to add another kind of money to our present great variety.

Mr. WHITE. I quite agree with you.

Mr. BROSIUS. I would like to know if there would be any means of issuing these notes so that they could be distinguished from the others without having them known by a different name?

Mr. WHITE. They would have to be issued in a different color to attract the attention of the public. If there is a difference in the character of the notes the public ought to be made aware of it in some way, so that anybody could see it instantly.

Mr. BROSIUS. That would be necessary also for the purposes of the Government, because they are treated somewhat differently from the other notes. There would have to be a way of distinguishing them, but I would not like to have them known by a different name if it can be avoided.

Mr. FOWLER. You think it would be advisable to have the notes different in color, so that they could be distinguished at a glance?

Mr. WHITE. Yes, sir.

Mr. FOWLER. You would not have the words and terms themselves say that they were different?

Mr. WHITE. That might also be desirable.

Mr. BROSIUS. What object would the public have for knowing anything about it when they know that one note is just as good as another? This note will be just as good as a national-bank note under the present law, and I can not see any object the public would have in knowing anything about it any more than now, when they do not know what bank issued the note, they do not know anything about it, except they know that the notes are good, but the Government, inasmuch as it treats the notes in some respects differently from the old notes, would have to have some mode of distinguishing the one from the other. The coloring would be sufficient for that purpose. Then all our bank currency would be known as national-bank notes, instead of bank notes and guaranteed notes. The public would have no necessity to inquire about the difference between the two, because the public never uses the notes for the purpose of exchange. The notes would be good and the public would never make any inquiry.

Mr. WHITE. It has been customary for the Government to put on the face of the note, or the back of it, certain facts regarding it, and I think that is a good custom.

Mr. BROSIUS. If there is any difference between the two kinds of notes—the present note and the so-called guaranteed bank note; if there

is any difference in law, there ought to be some kind of mention of it on the face of the bank note.

Mr. WHITE. I think so.

Mr. LOVERING. Is it directed by law as to what legend shall go on every note?

Mr. WHITE. No, sir.

Mr. LOVERING. That is a matter which is left to the discretion of the Treasury Department?

Mr. WHITE. Yes, sir.

Mr. LOVERING. And this is left in the same way?

Mr. WHITE. Yes, sir.

Mr. DRIGGS. Is it not a fact that the people became suspicious in the first place, simply as an illustration, of the old trade dollar because it was labeled "trade dollar?" Would they not also become suspicious of this note if colored, and suppose it to be a different kind of a note? It seems to me that the great mass of the people, if the bill was enacted into law, would not understand it. If you put out a different colored note and a different kind of note they will try to find out something about it, if there is any suspicion in their minds as to its worth or value, and as soon as they found one they would refuse to accept it, and, instead of the bill accomplishing the object that the author is desirous of accomplishing, it seems to me that it would be against the bill to have these notes diametrically different.

Mr. WHITE. According to my observation and belief the public takes anything that has the words "United States" printed on it. They take silver certificates, they take bank notes, they take gold certificates, they take greenbacks, and they take the so-called Sherman notes, and not one man in fifty ever looks beyond the words "United States."

Mr. DRIGGS. But yet they refused to take trade dollars, and if these notes take the place of a trade dollar or the trade Treasury note or whatever you call it, might they not treat it in the same way?

Mr. WHITE. The public never refused to accept trade dollars until they fell below par.

Mr. BROSIUS. If bank notes are issued under circumstances that preclude the probability of the people understanding how they are secured I think they would be open to the suspicion which you mention, but such suspicion would be dissipated if the notes are issued on the theory that Mr. White approves. I do not know that you were here at that time. That is for the Government to guarantee the issue and let it protect itself in its own way, and when the public know that the Government is behind the money it would not be open to any suspicion whatever.

Mr. WHITE. The remaining sections of the bill, which are not necessary to be discussed critically, provide for issuing additional guaranteed bank notes after three years and after six years from the passage of this act, but they do not change any principles of the bill.

Mr. BROSIUS. That is only an extension of the system?

Mr. WHITE. Yes, sir.

Mr. BROSIUS. This bill provides for an experimental step in a certain direction and those sections provide for the continuance or progress in that direction.

Mr. WHITE. Yes, sir.

Mr. CAPRON. In your judgment, are the provisions of this bill of such advantage or do they offer such advantage to the banks as will

induce then to generally adopt this system? I suppose we can not put anything in the bill to compel banks to issue bank notes.

Mr. WHITE. I should think the banks would go into it.

Mr. CAPRON. The potent factor to me in the enactment of a law is whether or not we would be enacting something that the banks would find sufficiently attractive to make them go into it?

Mr. WHITE. My opinion is that they would adopt this system.

Mr. LOVERING. With the exceptions which you have taken which can be changed in the bill, with such changes made is not the bill, as far as it goes, perfectly safe and a desirable measure?

Mr. WHITE. I think it is, provided you make the notes absolutely secure. As I said at the beginning, I should insist upon certain steps being taken to make the notes absolutely secure and to remove from the public mind any doubt on the subject.

Mr. LEWIS. Do you believe that the real good, strong banks would be willing to go into a scheme of this kind without these notes being better secured than the security from this redemption fund in the Treasury? If only one bank starts in the business and puts up the 5 per cent, that is not sufficient. Then if one bank is not sufficient for its own notes, why would strong banks be willing to join in and make them good? In other words, if you were running a good, large bank, with a lot of smaller banks and put up the 5 per cent to guarantee it without having any special lien, would you be willing to join the scheme?

Mr. WHITE. At the outset I should say no. It would have to be a matter of experiment. The system would have to grow up as it grew up in Canada and in New England under the Suffolk system.

Mr. LEWIS. Would you prefer a bank to issue notes upon its assets rather than upon this scheme of bonds? This issue is based upon bonds.

Mr. LOVERING. Oh, no.

Mr. CAPRON. No other bonds than those already issued.

Mr. LEWIS. So much on bonds, but not more than 10 per cent of the capital of the bank.

Mr. WHITE. The existing system is on bonds, and this is an additional issue. It is based on the assets.

Mr. LEWIS. A note issued on assets is simply issued on the credit of a bank and is a liability against the bank.

Mr. WHITE. Issuing against assets and issuing on credit mean the same thing. You can not have credit without assets.

Mr. LEWIS. I do not understand then the allusion to the bond issue.

Mr. BROSIUS. The issue has to be limited in some way, and the bill limits the issue to two-thirds of the amount of the bonds.

Mr. LOVERING. I may perhaps say right here that as the bill was originally drawn there was no allusion at all made to the bonds, but at the suggestion of the Secretary of the Treasury it was attached to the bond issue for fear that otherwise these notes would displace the bond-secured notes and thereby force upon the market the bonds of the Government. It was at the suggestion of the Secretary of the Treasury that the change was made.

Mr. WHITE. His object, I suppose, was to keep up the price of the bonds in the market lest they should fall below par?

Mr. LOVERING. That was his motive.

Mr. WHITE. I do not see any disadvantage in the bonds going below par; it would enable the Government to buy them cheaper for the sinking fund.

Mr. LEWIS. After this act had been in force for six years when the banks could issue 40 per cent in notes, could not they put a great deal of money on the market or withdraw it from circulation, and would not that have a depressing effect or a booming effect? Would it not be liable to cause panics or depressions?

Mr. WHITE. If they should expand their credit unduly?

Mr. LEWIS. Yes, sir.

Mr. WHITE. They can expand it far more in checks than notes. I do not think that banks can expand the currency unduly under conditions of redemption in gold on demand. They might inflate somewhat in times of general "boom." They might inflate when everybody else is inflating; when prices are advancing they can do it to some extent.

Mr. LEWIS. And is it not your idea that the banks are inclined toward "booms" as much as other people are?

Mr. WHITE. Just about as much as others.

Mr. LEWIS. Take New York—Wall street; those banks have been loaning out every cent of the money they have, and they would have a greater surplus under this bill?

Mr. WHITE. Not in the form of bank notes. They lend their credit mostly in other forms.

Mr. LEWIS. But when the banks have money they loan it?

Mr. WHITE. The banks can join in a general inflation.

Mr. FOWLER. These bank notes are not held as a reserve, and they can not be regarded as a part of the money that the country has in the sense you speak of.

Mr. LEWIS. These bank notes are not kept in the New York banks to any considerable extent; they keep them out in the country, and will get other money instead. These country banks keep their deposits with these reserve banks, and therefore it has the same effect of keeping the reserve up.

Mr. WHITE. Yes, sir. The piling up of deposits from the country banks does tend to loose speculation in reserve cities.

Mr. HILL. Is it not true that the very large sums of money on deposit with the banks in New York City is due to the fact that the banks throughout the country, when the money is on deposit, put it there to get the 1 or 2 per cent interest, because of their inability to make proper and safe loans at home?

Mr. WHITE. Yes, sir.

Mr. HILL. Why would they have to unduly expand their note issues? Why would not that be an unanswerable argument against such expansion in view of the fact that they would rather leave the money on deposit in New York at 1 or 2 per cent?

Mr. WHITE. I said I did not think they could expand much under the requirement of immediate gold redemption.

Mr. LEWIS. You spoke of a secure currency and a flexible currency and said that you preferred a secure currency.

Mr. WHITE. I said that if I had to choose between a secure currency and a flexible currency not perfectly secure, I would prefer a secure currency.

Mr. LEWIS. I really do not catch the distinction between the two. What do you mean by the term "flexible currency?"

Mr. WHITE. I mean a currency that expands and contracts with the demands of business.

Mr. BROSIUS. It is sometimes called an elastic currency.

Mr. WHITE. I said that as between an elastic currency and a secure currency, I should choose the secure currency.

Mr. LEWIS. What do you mean by "secure?" Indorsed by the Government?

Mr. WHITE. Yes, sir; preferably, but not necessarily. The English, French, and Canadian bank notes are secure, but are not indorsed by the governments.

Mr. LOVERING. As to taking that money in your own pocket, would you discriminate between the two?

Mr. WHITE. I do not mean that.

Mr. FOWLER. You mean in making or establishing a system?

Mr. WHITE. Yes, sir.

Mr. FOWLER. The same feeling that anyone might have naturally as to a flexible currency and a so-called secure currency?

Mr. WHITE. I attempted to explain in the beginning that there might be a currency issued which would be entirely flexible and yet secure.

Mr. FOWLER. The currency might be perfectly flexible under a credit system and be just as safe as though it were issued with gold back of it?

Mr. WHITE. Yes, sir. I think they have such a currency in England to-day; also in France, Germany, and Canada.

Mr. LOVERING. Do you think the currency issued under this bill would be any other kind of currency than just such a sound, flexible currency as far as it goes, with the exception of the criticisms you pointed out?

Mr. WHITE. I am not sure that it would be. I have always been in favor at the outset of establishing a bank-credit currency with a Government guaranty. I published a book on the subject of banking and currency in which I made that suggestion (on page 442). I am of the opinion that in the course of a few years the system would become so thoroughly established that the Government guaranty might be safely withdrawn, but I think, as an initial step, that it would be best for the Government to guarantee the currency and make itself secure by means of the bank's assets and a common guaranty fund, as this bill provides.

Mr. CALDERHEAD. Is the security sufficiently provided for in this bill?

Mr. WHITE. I am inclined to think that it would be. I would not like to say positively, but I am inclined to think so.

Mr. DRIGGS. I would like to ask Mr. White a question that does not seem to be at all satisfactory in the minds of the bankers of my city—Brooklyn, N. Y. I have talked with nearly all the bankers in relation to this bill. It is this: Is there any necessity for such legislation as this, and, secondly, is there any immediate necessity for such legislation as this? That is the first question that every banker in Brooklyn has asked me. What is the necessity for this legislation, and, in the second place, what is the immediate necessity. They say that they have the gold standard established. I submitted at the same time the Overstreet bill, which practically puts every kind of money in the United States on the gold standard. I would like to know what is, first, the necessity for this legislation, and, secondly, what is the immediate necessity.

Mr. WHITE. I do not think there is any immediate necessity. I

think that it is a part of a great scheme of amelioration which will come gradually and which ought not to come suddenly. I do not think there is any immediate necessity.

Mr. DRIGGS. Do you not consider it wiser to allow the people to thoroughly understand the gold-standard act prior to the enactment of such legislation as this?

Mr. WHITE. I do.

Mr. CAPRON. I would like to ask Mr. White if within the last twelve months there has not been a time when the currency stringency in our large centers was such as to suggest to the people that we needed a possible expansion of our currency system in this country; I would like to know if that has not been potently suggested within the last twelve months and is it not likely to recur?

Mr. WHITE. Not in the large cities, I think.

Mr. CAPRON. I had a notion that a year ago last fall that we were, so to speak, "up against" a situation where there was a lack of currency in New York; that there was quite a decided and evident lack of currency. It was so reported and understood.

Mr. WHITE. I do not recall it; it may have been so.

Mr. CAPRON. I thought that clearing-house certificates were put out and that the Secretary of the Treasury had to go to the relief of the situation in New York.

Mr. WHITE. That was because the Government had withdrawn so much money from circulation into the Treasury. And the Secretary relieved the stringency by redepositing it in the banks.

Mr. CAPRON. Exactly, but we can not always depend upon the Secretary of the Treasury. We want some other natural relief than to depend upon the Secretary of the Treasury coming to our relief under such conditions, which have been considered illegal or extra legal.

Mr. WHITE. I doubt whether the right to issue bank notes would have relieved that kind of a stringency; perhaps it would.

Mr. CAPRON. It certainly was a currency stringency, if I remember, or at least it was so understood.

Mr. FOWLER. Was not the call for this currency largely from the West pressing on the New York banks, and the New York banks unable to respond to it?

Mr. DRIGGS. Was it not also due to the extraordinary prosperity of the country that so much money had been put into the Treasury for duties of various kinds; was not that also one of the reasons of the scarcity of currency?

Mr. FOWLER. The call for the currency came from the West, and the New York banks were unable to meet the call, and in that condition they found themselves practically in a panic, and at the last moment, as it were, Mr. Gage deposited certain sums of money in the banks. I would like to know whether or not the want of currency that expressed itself at different parts of the country was not due to the fact that there was a large sum of our funds in one way or another put into the Treasury?

Mr. WHITE. I should think it very probable.

Mr. FOWLER. Will you kindly discuss that as it has been presented?

Mr. LEWIS. I think Mr. White will probably remember the time, a little more than a year ago, and I think the stringency was largely due to the fact that these industrial enterprises in this country, like the

bicycle enterprise and similar organizations, were forming, and I think that was the real cause of the scarcity of money in the New York banks. I think the Treasury had but little more money than to-day.

Mr. FOWLER. Mr. White, if you will kindly turn your attention and discuss the situation in the fall of 1899 and the stringency in New York City, we would all like to have you do so.

Mr. WHITE. I should not like to give any decided opinion on that subject without making an examination into the conditions which then existed. As I remember, the Treasury had accumulated a large surplus and a stringency existed in the New York money market, which was relieved by the Secretary taking out some of this surplus and putting it back into the banks. Now, that kind of a condition is not likely to be relieved, in my opinion, by an issue of bank notes. At all events, that is not the most appropriate way of relieving it. The appropriate way is not to take more money into the Treasury than is required for current disbursements.

Mr. CALDERHEAD. It did not appear to us in the West that it was the amount of money that was locked up in the Treasury that was distressing us. All over our country prices were advancing and opportunities for business were opening and we wanted money, and when we began to make the demand on the East there was no way of increasing the circulation by bank issues.

Mr. FOWLER. It was the crop moving period?

Mr. CALDERHEAD. Yes, sir; and it was the extension of lines of industry and railroads. It was everything that was opening up at advanced prices, and every man who had a little capital and a little energy wanted more money. In every city of 4,000 inhabitants in my district they wanted a United States depository, and they were willing to buy the bonds at a premium and secure the money for the use of the cattle trade in that country.

Mr. WHITE. Everybody knows there are periods when the demand for currency is greater than at other periods.

Mr. CALDERHEAD. It was not the quantity of money locked up in the Treasury, it was the lack of money.

Mr. FOWLER. You are from Kansas, and that was the condition in that State?

Mr. CALDERHEAD. Yes, sir; I am just speaking of the conditions there.

Mr. FOWLER. That was in 1899?

Mr. CALDERHEAD. Yes, sir.

Mr. FOWLER. And it is your opinion that the stringency grew out of an extraordinary demand for the tools with which to do this business and was not due to the amount of money that was collected in the Treasury?

Mr. CALDERHEAD. Yes, sir; that is it exactly.

Mr. FOWLER. Might not that be a condition every fall in the United States, or in every active period when we have nothing but bond-secured currency, the amount of which is determined by the price of bonds, Mr. White?

Mr. WHITE. It might. It might be relieved, however, by an importation of gold.

Mr. LOVERING. That is the only method to-day?

Mr. White. Yes, sir; the only speedy and automatic method.

Mr. Hill. Going back to the 14th of March, 1900, the date of the passage of the so-called financial law, since that time there has been an increase in the bank circulation of from $90,000,000 to $100,000,000. How do you account for that?

Mr. White. That has been caused by an increased demand for the currency.

Mr. Hill. Was it any stringency produced by the national banks? They had full capital and everything permitting them to issue the currency.

Mr. White. Perhaps they could not get the bonds.

Mr. Hill. A great many banks had bonds and did not issue any bills at all. There was a large margin within the limit of bonds they held and the currency issued. New York City issued only about $14,000,000 of currency against $60,000,000 of capital.

Mr. Fowler. Were there not just as many bonds in existence at that time as now?

Mr. White. There were as many, but perhaps they were not equally accessible.

Mr. Fowler. At the prices, they were. You could get them in the market every day.

Mr. White. Not in great quantities.

Mr. Fowler. Yes; if you would pay for them.

Mr. Hill. Why did they take the new bonds and issue the bills?

Mr. White. Because there was a demand for currency. You asked why they did not do it before. I frankly answer that I do not know.

Mr. Hill. Was there not a greater demand during the previous fall than last summer?

Mr. White. I should say so.

Mr. Hill. It was not because they needed the currency in the summer. Was not this true: That the reason they did it was because they could issue that currency cheaper and thus, in that way, could meet the demand for money, that the national banks changed their policy of not issuing currency, as it had gradually run down for several years, and that now within nine months, under the lower rate, it has gone up to $90,000,000 or $100,000,000?

Mr. Fowler. Was it not due entirely to the price of bonds?

Mr. White. I am not sure.

Mr. Fowler. And the conditions imposed by the act of March 14, 1900?

Mr. White. The act of March 14, 1900, allowed them to issue 10 per cent more on the same amount of security.

Mr. Fowler. And the tax was only one-half as much?

Mr. White. Yes, sir.

Mr. Hill. Was it not a fact that they could issue more currency against the same bonds with a tax cut in two that made it more economical to issue the currency, and that therefore they availed themselves of that advantage and met the needs of the country during the last nine months?

Mr. White. Yes, sir; I had forgotten, for the moment, that part of the law of March 14, 1900.

Mr. Hill. And would it not naturally follow if the bond was taken away and there was no tax, and the issuing of notes, under proper

restrictions of safety, was as free as the issuing of checks, that they would respond still more promptly to the requirements of the country?

Mr. WHITE. Yes, sir.

Mr. HILL. Would it not be advantageous to the individual, as well as every producer and every consumer, that the issue of currency should be made absolutely free, within proper provisions of safety, and that it be reduced to the lowest point of economy? Does not economy always imply necessity?

Mr. WHITE. It does not always imply necessity. I agree that it would be economical and desirable. I do not think it would be absolutely necessary.

Mr. FOWLER. Now I want to ask one question of Mr. White, based upon your statement in regard to the observations of the Brooklyn bankers. You said that they say that there is no necessity, and particularly no immediate necessity. Now I want to ask, if there is no necessity, and particularly no immediate necessity, for such a bill in this month of February and March, might there not be a most pressing necessity for this thing next fall?

Mr. WHITE. There might be.

Mr. HILL. I call your attention to the fact that the Treasury statistics show $187,000,000 more money in circulation five days ago this year than five days ago this time last year; that, of course, includes extra national-bank circulation.

Mr. FOWLER. Mr. Driggs, would you like to ask any further questions?

Mr. DRIGGS. I think I am satisfied along that line; that is all I wanted to ask.

Mr. FOWLER. This fact, I think, becomes pertinent here, that a year ago the first of this month there were $2,000,000,000 in circulation; on the first day of February this year there are $2,190,000,000. Now do you think that the conditions of business in the United States this year actually require $190,000,000 more money to do the work than it did a year ago?

Mr. WHITE. Yes; for otherwise it would not have been there.

Mr. FOWLER. If what you say is true, it would not have been there; why would it not have been there in the fall of 1899? The same amount of bonds were in existence, the demand was here, and yet the circulation was not forthcoming.

Mr. WHITE. I do not think I can give a precise answer to your question.

Mr. DRIGGS. I want to ask right in that connection, if the circulating medium has increased $190,000,000 in the last year, does that not prove that the laws existing to-day are sufficiently flexible to allow of the increase of that circulating medium in response to the demands of trade and business?

Mr. WHITE. It certainly shows that an increase of $190,000,000 was available. Whether that is enough or not I do not know. I suppose that the increase consists largely of gold, or partly of gold.

Mr. FOWLER. I want to ask, Mr. White, do you remember what the bank-note circulation was in 1880? Was it not approximately $325,000,000?

Mr. WHITE. I think it was.

Mr. FOWLER. How much was it on the 1st day of January, 1892, approximately?

Mr. WHITE. I think it had shrunk about one-half.

Mr. FOWLER. Was it not down to $125,000,000?

Mr. WHITE. Very probably.

Mr. FOWLER. Then it had shrunk $200,000,000. Will you explain why it had shrunk?

Mr. WHITE. I suppose that the price of the bonds in the market became so attractive that the banks sold them in order to realize on the premium. To sell the bonds they had to retire their circulation.

Mr. FOWLER. In other words, the circulation from 1880 to 1890 in round numbers had shrunk $200,000,000 because it was unprofitable to keep it out on account of the price of the bonds?

Mr. WHITE. Yes.

Mr. FOWLER. Very well; is not it true, practically, that all the circulation which has gone out since the 14th of March, 1900, has gone out because the price of bonds makes it profitable?

Mr. WHITE. I am inclined to think so.

Mr. FOWLER. Very well. Then the circulation of a secured currency, or one based on Government bonds, is put out, not because the trade of the country calls for it, but because the price of the bonds makes it profitable or unprofitable?

Mr. WHITE. It might be for both reasons.

Mr. FOWLER. More of which one than of the other?

Mr. WHITE. I do not know.

Mr. FOWLER. If it was not a question of the bonds, how is it that this circulation did not go out during the summer of 1899, when there was a panic all over the United States, and yet there were as many bonds in existence as there are now?

Mr. WHITE. I can not answer that question offhand. It might have been because time is required to take out circulation, and the pressure for money might be over before the bank notes could be procured.

Mr. DRIGGS. Do you not think the nonenactment of the gold-standard law had something to do with it? You remember the gold-standard law was not enacted until March 14, 1900. Might not that have had a bearing on the situation in 1899?

Mr. FOWLER. The shrinking of the national-bank notes from 1880 to 1890 in round numbers of about $200,000,000 proves conclusively that they were taken from circulation because the bonds were unprofitable, and the increase of $90,000,000, approximately, from March 14, 1900, down to the present time is clearly the result of the price of the bonds again, because of this fact, that during the year from the 14th of March, 1899, to the 14th of March, 1900, when the act was passed, there was a panic call for money and yet, while there were just as many bonds in existence in the United States to-day and has been since, no circulation was taken out at all to speak of.

Mr. WHITE. In answer to Mr. Driggs's question I do not think that the passage of the gold-standard law had any effect upon the volume of the currency at any particular time. I do think it created confidence in the business community; and confidence tends to enlarge business and call for more money.

Mr. LOVERING. Was not the permission given to issue up to a full value and the other inducement of a reduction of the tax, was not that a sufficient inducement?

Mr. WHITE. Yes, certainly; but what I had in mind was the establishment of the gold standard itself.

Mr. DRIGGS. I do not think so either (that the establishment of the

gold standard itself had anything to do with the volume of the circulating medium), but do you not think that the fact that there was no gold standard in the fall of 1899 when this vast amount of money was in the Treasury might have had something to do with the panic conditions of the money market at that time?

Mr. FOWLER. There was no more money approximately in the Treasury at that time than the year before; $25,000,000 was a matter of no consequence.

Mr. WHITE. I do not think the gold standard had anything to do with it.

Mr. CALDERHEAD. Was it not a stringency of currency which kept down the volume of business; the people wanted an opportunity to do business but they had not the means with which to do it?

Mr. FOWLER. It was a currency panic, not a credit panic.

Mr. WHITE. The gold-standard act was passed in 1873 and the act of March, 1900, only reaffirmed it.

Mr. DRIGGS. Of course it reaffirmed it in a way that satisfied the people.

Mr. CALDERHEAD. Do you think this bill sufficiently secures the currency it provides for?

Mr. WHITE. I said in the beginning I thought the Government ought to guarantee anything that it allowed to be issued as money.

Mr. CALDERHEAD. Is not the guarantee which is provided in the bill sufficient, according to experience, for this protection of the currency?

Mr. WHITE. We have had no such experience yet. It might be sufficient, and yet it might not remove all doubts in the public mind.

Mr. CALDERHEAD. But that is one of the things we want to know here; that is an important question.

Mr. WHITE. I can not affirm that this will absolutely secure the currency proposed to be issued. I think it probably would, but I do not think it would remove all doubt in the public mind, which is also a matter of importance.

Mr. CALDERHEAD. What would you add to the bill, then, for this purpose?

Mr. WHITE. The Government's guarantee.

Mr. HILL. What country has a government guarantee for bank-note issues?

Mr. WHITE. This country has.

Mr. HILL. I meant outside of this country; of course I understood that.

Mr. CALDERHEAD. The other question is, what difference is there between the Government being the banker and the people being the banker? The very thing we are trying to escape is the condition of having the United States Treasury a bank for the business of this country; we are trying to relieve it of that burden, and have an independent treasury, and let the people furnish their own money for their own business.

Mr. BROSIUS. Do you think it puts the Government in the banking business to guarantee the circulation?

Mr. CALDERHEAD. It substantially does.

Mr. BROSIUS. When you go on a man's note who is in the mercantile business, does that make you a merchant?

Mr. CALDERHEAD. Not by any means, but you make a banker of him to that extent.

Mr. BROSIUS. Mr. Fowler has alluded to the fact that between 1880

and 1890 there was a large falling off in the amount of bank-note currency. Was that not in part due to the large amount of Government money that came into the channels of circulation during that period and necessarily crowded out the bank note? The large amount of silver we were loading up with before that time, would not that have a tendency to crowd out the bank notes?

Mr. WHITE. I do not see how it should.

Mr. BROSIUS. You do not see how one form of money filling up the channels of circulation would crowd out some other form?

Mr. WHITE. These silver certificates were not legal tender.

Mr. BROSIUS. Neither were the bank notes.

Mr. WHITE. How could one crowd out the other?

Mr. BROSIUS. I do not know that I am able to say now; the modus operandi I would not like to explain on the first blush.

Mr. WHITE. Why should not the bank notes crowd out the silver?

Mr. BROSIUS. Because the silver and silver paper was Government money, and that might have something to do with it; in fact, I always believed the falling off of bank-note currency during those years was due to two things. In the first place, the filling of the channels of circulation with other money prevented the banks from keeping out their bank notes all the time, and under our system bank notes were so expensive we can not afford to keep them idle in the banks, and unless they can keep them out a fair share of the time they declined to put them out at all; they declined to take out circulation.

Mr. WHITE. You are right as to that.

Mr. BROSIUS. That seems to be a plain proposition, and between the two things of course the result was that the bank-note circulation fell off. Now, Mr. Driggs mentioned a point which I think requires a word. He suggested that the fact that under the present law there has been a large increase of almost a hundred millions in a year in our bank-note circulation is an evidence that under the operation of the existing law there is enough flexibility, enough capability for putting out money without any additional legislation. He omitted, probably it escaped his mind, to state that this large amount of money that had been issued during that year was due to the increased facilities afforded by that legislation, which facilities have practically been exhausted now, and that increase can not continue——

Mr. HILL. Why not?

Mr. BROSIUS. Well, that is so obvious that I do not know that it is necessary for me to answer the question. Nearly all the 2 per cent bonds are in the hands of the bankers now, and some $300,000,000 are behind the currency. We have only a limited number out, and it does not pay the banks to take out circulation on those other bonds, so there is necessarily a limit to the amount of issues that can be made on the 2 per cent bonds. If all our bonds were 2 per cent bonds and selling at par, the banks could take them out, and they would buy the bonds and issue all the circulation the people need. Do you not think so?

Mr. WHITE. Two per cent bonds?

Mr. BROSIUS. Two per cent bonds selling at par. The banks had to pay such a premium on the bonds before that it did not pay them to take out circulation. It would pay them to take out circulation on any one of our bonds now if they could keep that circulation out all the time, but they can not keep it out all the time. There is hardly any bank which can keep out circulation all the time and unless they can keep it out enough of the time to make it pay, they are better off

not to take it out at all, but the more inexpensive the bank circulation is the banks will take it out because they can afford it and just in proportion to its inexpensiveness can they afford to keep it idle in the banks, and that makes an elastic circulation. On that point, you spoke about a flexible or elastic currency being a currency that expands and contracts to meet the needs of a community. What do you understand to be a contraction of the currency? I mean what becomes of that part which makes up the contraction of the currency.

Mr. WHITE. The return of the currency into the vaults of the bank.

Mr. BROSIUS. It is not destroyed?

Mr. WHITE. No.

Mr. BROSIUS. It is simply kept idle until needed?

Mr. WHITE. Yes.

Mr. BROSIUS. And an inexpensive currency enables them to keep it idle until it is needed without suffering a loss?

Mr. WHITE. Yes.

Mr. BROSIUS. They can not keep our present currency idle for much time without a loss. Any currency issued secured by bonds commanding such a rate of interest as to bring it at par so that it would pay them to take out currency, such a currency could be just as elastic as any other kind?

Mr. WHITE. Yes.

Mr. BROSIUS. I infer from what you have said that you think it is the function of a government that authorizes representative paper money to be issued for the use of the people to guarantee that money.

Mr. WHITE. I think it is the duty of the Government to see to it that anything it allows to circulate as money is absolutely good.

Mr. BROSIUS. And the best way to do that to the satisfaction of the people is for the Government to put itself behind it in the shape of a guaranty such as the people will understand?

Mr. CALDERHEAD. Is that right?

Mr. WHITE. In France the Government does not guarantee the currency.

Mr. FOWLER. Does it anywhere in the world?

Mr. WHITE. Only in this country.

Mr. BROSIUS. My point is, you have repeatedly stated—and I was pleased to hear you state it in that way, because for years—since I first studied your book (I think I got the idea from you)—it has been a pet idea with me—that a government authorizing the issuing of paper money which the people are under moral compulsion to take in their business—it is the duty of that government to guarantee that money?

Mr. WHITE. I think so.

Mr. BROSIUS. So if there is any loss, or risk of loss, practical or theoretical, whatever it is, it is better for it to be carried by the whole people than for the note holders to carry it?

Mr. WHITE. I think so.

Mr. CALDERHEAD. What difference is there between that and the greenback theory of money?

Mr. BROSIUS. Are you putting that question to me or to Mr. White?

Mr. CALDERHEAD. Either one.

Mr. BROSIUS. I say there is a great deal of difference.

Mr. FOWLER. Let Mr. White answer first.

Mr. CALDERHEAD. I have had some contests over that question myself, and have had to live with it.

Mr. WHITE. The greenback is a Government debt——

Mr. CALDERHEAD. I said the greenback theory of money, not the greenback. I know what a greenback is.

Mr. WHITE. I was going to say the greenback is a Government debt; the bank note is a credit instrument, the existence of which shows that goods have been put in circulation, and that an exchange is going on in the community between different persons and different kinds of property, the bank being the medium through which these exchanges take place, partly by means of checks and partly by means of notes. That is the only way I can answer your question.

Mr. CALDERHEAD. If the Government guarantees that note, what difference is there between the Government issuing that and the greenback?

Mr. WHITE. In the first place, the Government does not owe the bank note which is issued.

Mr. CALDERHEAD. But it guarantees it, and if the bank runs in debt the Government has to pay it?

Mr. WHITE. The Government will act as an agent and must secure itself in some way with the property of the bank.

Mr. CALDERHEAD. That brings us around to another question, and that is in reference to the contraction of the currency. There are two ways of contracting. One is by withdrawing and destroying it by locking it up, and the other is a relative condition of contraction. When we arrive at the limit, as we do now, of the amount of bonds which can be used as a basis of circulation, and the business of the country demands more money, and there is no provision made for a satisfactory circulation, we have all the effect of a contraction, and there is a call from every corner of the country for circulation, but the experience is that men will not buy more bonds and use them as a basis of circulation than what they are doing now, and we want more money, and we just have all the effect upon business of a contraction of the currency without any of it being destroyed.

Mr. FOWLER. Take the developments of five years.

Mr. CALDERHEAD. The developments of three years show it.

Mr. FOWLER. Suppose we get this enormous increase for three years more, where would it come from if they will not buy bonds and put them out?

Mr. CALDERHEAD. Within two years of this time we will be suffering from the effect of such a contraction of the currency, and it will be felt all over the country. Does this provide for it?

Mr. WHITE. You must remember that the gold of the world can be drawn upon, and that we are producing 70,000,000 a year in this country, and 20,000,000 more in Canada, most of which finds its way hither.

Mr. CALDERHEAD. The gold stock of the world is not authorized as a basis of circulation, and——

Mr. WHITE. You can obtain gold certificates by depositing gold in the Treasury.

Mr. CALDERHEAD. That is merely gold; gold will circulate.

Mr. FOWLER. You are lending capital instead of credit.

Mr. WHITE. Yes.

Mr. FOWLER. Is that good economy for a bank?

Mr. WHITE. Perhaps not. I say that can be done to relieve a stringency. That is always a resource.

Mr. CALDERHEAD. There is a limit of 60,000,000, say, per annum, while the expansion in business demands has been 190,000,000 in a very short time.

Mr. LEWIS. One hundred and ninety millions increase each year would bring a panic to the country.

Mr. CALDERHEAD. Increase in business will demand that much increase next year if the same conditions continue that have existed since this time last year. There is the entire West from the Mississippi River to the Pacific Ocean practically to be developed; there is the canal to build; the Southern Pacific Railroad to complete. Additional railroads between Denver and the Pacific coast, the development of the stock of the country, of the mines of the country—all that is just standing awaiting for some opportunity to do business, and all of it finds itself contracted just because when it calls for money from here it is 10 per cent interest to them while it is 3 or 4 per cent on the street here.

Mr. WHITE. There is no great mystery about this currency question. You have existing in Canada now a credit currency that has been going on for a great many years. It is absolutely safe and expands and contracts according to the needs of business.

Mr. LOVERING. But the Government does not stand behind it?

Mr. WHITE. No; it has been built up from small beginnings by the experience of two generations.

Mr. LOVERING. Have we not to start and build up some such system here?

Mr. WHITE. Yes; I think so.

Mr. LOVERING. This bill aims at that; it is the first step in that direction?

Mr. WHITE. Yes, sir.

Mr. BROSIUS. Is it not a great deal easier to build up and apply such a system in a country where they only have from 38 to 40 great big banks with large capital, with branches, than to build it up in a country with 15,000 banks and each bank resting on its own bottom?

Mr. WHITE. Yes. The only way I can see (as I have said several times), is to begin tentatively by having the Government guarantee this currency and secure itself with the assets of the banks. I think that is necessary in order to get the system started, because our habits and modes of thought are different from those of Canada. It is a matter of detail which I think can be worked out satisfactorily.

Mr. FOWLER. Let me ask a question right on that point. Mr. Brosius says we are a country of 15,000 banks. How long would this country have 15,000 banks if you authorize the establishment of branches in this country?

Mr. WHITE. That is a difficult question to answer.

Mr. FOWLER. Do you not think there would be an amalgamation immediately of banks and it would go on until virtually there was the same unification of banks that there is in all other lines of commercial business?

Mr. WHITE. I should think there would be a tendency that way, but bear in mind that each of these country banks has its own president, cashier, trustees, tellers, etc., and if they become branches of a city bank their places would be in danger and they would resist that kind of a change.

Mr. FOWLER. Of course they are going to resist it, but should we go on forever paying dividends on 2,000,000,000 of bank capital in this country when dividends on 500,000,000 would carry on its commerce? Are we to pay this tribute on 1,500,000,000 of capital, taking

it out of the commerce of this country, taking it out of the hand of toil—should it remain as a bar upon our exports to foreign countries in competition with other nations forever?

Mr. WHITE. If you ask me whether I am in favor of branch banks, I say I am. I am not in favor of any compulsory process——

Mr. FOWLER. It would not be compulsory.

Mr. WHITE. But I am in favor of allowing——

Mr. LOVERING. Is it your impression that branch banks would drive out the local banks?

Mr. WHITE. No. The Bank of England has branches, but it has not driven out local banks. The local banks in London flourish alongside the Bank of England, and in the aggregate do more business than the bank.

Mr. BROSIUS. It does not have many country banks to drive out?

Mr. WHITE. No. But those that previously existed it has not driven out.

Mr. HILL. They have a lot of local banks not banks of issue—60 in London alone.

Mr. BROSIUS. I had in mind banks of issue.

Mr. FOWLER. Is there a country anywhere in the world that does not have branch banks except the United States? I mean any leading country.

Mr. WHITE. I do not think of any.

Mr. FOWLER. Can there ever be a mobilization of the loanable capital of a country without branch banks?

Mr. WHITE. Yes; but not so effective as by branches. Mobilization of capital takes place now by country banks sending their bills receivable to be rediscounted in New York.

Mr. FOWLER. Do you regard the loanable capital of a country as being mobilizable when it commands 12 per cent in one section of the country and 3 per cent in another?

Mr. WHITE. It is mobilizable more or less.

Mr. FOWLER. But rather less than more?

Mr. WHITE. Yes. I think the mobilization would take effect more decisively under a branch-bank system than under the present system.

Mr. FOWLER. Would not mobilization be complete and perfect and the rate of interest be equalized plus the cost of transportation of the notes, or the metal if necessary, throughout the entire country?

Mr. WHITE. On the same kind of security, it would.

Mr. FOWLER. Do not the eleven banks of Scotland, with their thousand branches, loan their money in every nook and corner of Scotland at exactly the same rate of interest?

Mr. WHITE. I believe they do.

Mr. FOWLER. Is it not a fact that for three years in every nook and corner of France there was not a variation of one-eighth of 1 per cent in the rate of interest throughout France, and that rate was as low as 2 per cent?

Mr. WHITE. I think it has been uniform, but whether it has been as low as 2 per cent I do not know.

Mr. FOWLER. That is a fact. Is there any country in the world, any commercial country, where the rates of interest vary more than 1 to 1½ per cent, which is due to the cost of transportation?

Mr. WHITE. I can not answer that question. I do not know.

Mr. FOWLER. Is it not true even in Canada, which lies to the north

of us, over a country which is undeveloped, which is as varied in business and resources as our own, that the rate of interest from Quebec to Vancouver City is the same, with the additional charge of the cost of transportation on their notes or metal, as the case may be?

Mr. WHITE. Substantially so, I think.

Mr. FOWLER. That is a fact. Is it not true that in Australia, a new country, the rate of interest is the same in every part of Australia, with the exception of the charge of the cost of transportation on notes or metal, as the case may be?

Mr. WHITE. I do not know.

Mr. FOWLER. Well, that is true.

Mr. WHITE. That a system of branch banks would tend to equalize rates of interest I have no doubt,

Mr. FOWLER. Have you ever studied the question with a view of ascertaining whether or not it does not completely mobilize the loanable capital, plus the cost of the transportation of the notes or metal, as the case may be?

Mr. WHITE. I can not say I have studied it sufficiently to give a decided answer, but as to the general tendency I have no doubt whatever.

Mr. FOWLER. You said just before the hearing that in your judgment the bank notes, as now issued, should not be held as a reserve in other banks than the bank issuing them and especially not in the bank issuing them?

Mr. WHITE. I did.

Mr. FOWLER. State why, in your judgment, bank notes should not be held?

Mr. WHITE. Because the reserve should consist of money, which constitutes the final means of payment.

Mr. FOWLER. In your judgment, every obligation in the United States being payable in legal tender on demand, would not every promise to pay be just as properly a reserve as the bank notes?

Mr. WHITE. Repeat that, please.

Mr. FOWLER. Inasmuch as every obligation is payable upon demand of the holder in any legal tender from the debtor, is not such a promise to pay just as much and reasonably and properly legal tender in the hands of the bank as the bank note is?

Mr. WHITE. I should think the distinction between a private promise to pay and a bank's promise to pay would consist in the fact the bank's promise would be more likely to be met promptly.

Mr. FOWLER. It is only a question of probability, the other being payable in legal tender you can get gold the same as you can get gold from the bank notes and therefore there is just as much reason in saying that every promissory note can be held as legal tender as that a bank note can be held as legal tender?

Mr. WHITE. Yes.

Mr. CALDERHEAD. The statute says what shall be legal tender.

Mr. FOWLER. The national-bank note is redeemable and it is redeemable in legal tender and every promise to pay upon demand is payable in legal tender, and therefore each being payable in legal tender, each could with equal reason be made a reserve for banks. Mr. White, is it not true that all so-called "booms" that have resulted in destructive panics have been the result of long-time credit as against short-time credit, or more the result of long-time credit than short-time credit?

Mr. WHITE. Please state that question again.

Mr. Fowler. Is it not true that all so-called "booms" which have resulted in destruction of apparent values have been the result more of long-time credit than of short-time credit?

Mr. White. Oh, yes.

Mr. Fowler. So that a bank-note currency that is currently redeemed in gold coin could not be a source of a "boom" any more than deposits and bank checks?

Mr. White. No.

Mr. Brosius. Mr. White, under our law the silver certificates are reserve money as well as gold certificates, clearing-house certificates, etc.; they are all reserve money. Do you think of any reason for making the silver certificates reserve money that would not apply to the national-bank notes? In other words, why is not the national-bank note just as suitable for reserve money as silver certificates?

Mr. White. Well, it is not final payment.

Mr. Brosius. Neither is the silver certificate final payment. The national-bank notes are just as much final payment as the silver certificate.

Mr. White. The silver certificate represents coin.

Mr. Brosius. It represents coin, but it only represents coin worth 50 cents of its face and the national-bank note represents the greenback which is redeemable in gold.

Mr. White. You have a law on your statute book which says the Secretary of the Treasury shall keep the silver dollars at a par with the gold dollars.

Mr. Brosius. Exactly, but it has to be redeemed.

Mr. White. The silver certificate and the silver dollar are redeemed in an indirect way by being received for taxes and are thus kept at par with gold. The subject is infernally complicated, but the silver certificate and the silver dollar are both final means of payment.

Mr. Brosius. So are the national-bank notes received for taxes; the Government never refuses national-bank notes.

Mr. White. Yes; but it is not payment in itself.

Mr. Brosius. It is payment just as much as the silver certificate.

Mr. White. No; I do not think it is, because the silver certificate is immediately convertible into coin, and virtually into gold coin.

Mr. Brosius. The national-bank notes are immediately convertible into greenbacks which is immediately convertible into gold coin.

Mr. White. It may be and it may not be.

Mr. Brosius. No "maybe" about it; it is absolutely. Any man can take a bank note and get it redeemed with a greenback, and we know that any man can take a greenback and get it redeemed in gold, because the law requires it. Now, I would like to know a single reason on earth why the national-bank notes of other banks, not of course the bank's own notes—I do not mean that, but the notes of other national banks—should not, for the convenience of the public and the convenience of the bank, be counted as reserve money just the same as silver certificates.

Mr. White. Let me ask why a distinction should be made between its notes and other bank notes?

Mr. Brosius. Its own notes?

Mr. White. Yes.

Mr. Brosius. I would not like the bank to use its own notes as a reserve.

Mr. FOWLER. Why not, if they can convert them into greenbacks and then into gold?

Mr. BROSIUS. I think there is a distinction that every man is sensible of, and I would not go that far.

Mr. WHITE. I would not go so far as you do.

Mr. BROSIUS. There is not any argument of convenience between the public and banks that would require the bank to use its own notes as a part of the reserve, but there is an argument of convenience in favor of banks using the notes of other banks, because a bank does not pay anything to get its own notes redeemed; but when it has the bank notes of another bank it has to send them and have them redeemed, and what is the use of placing on that bank the burden of being without the use of that money for that time and the expense of having it redeemed in order that they may get the money to hold as a reserve, and inasmuch as the bank note is just as good as any money in the world, why not let them keep that?

Mr. FOWLER. Is it not true that if a bank uses the national-bank notes as a reserve it would exclude just that much gold coin if they do not have the greenbacks, which they ought not to have; therefore is it not the old law of the poorer money driving out the better?

Mr. WHITE. There is something in that; yes. Now, the *raison d'être* of a reserve is something you can pay foreign debts with. You can not pay foreign debts with bank notes; you can pay foreign debts under our system with silver certificates, silver dollars, gold certificates, and gold dollars, but you can not with national-bank notes.

Mr. BROSIUS. Do you say you can pay foreign debts with silver certificates?

Mr. WHITE. I say you can get them into a kind of money that will pay foreign debts.

Mr. BROSIUS. And so you can with the bank notes?

Mr. WHITE. So you can with the bank's own notes.

Mr. FOWLER. And so with a personal note?

Mr. WHITE. Yes; and with wheat, cotton, and tobacco.

Mr. FOWLER. In private notes you say, "I do not want that certificate." "What do you want?" "I want gold or greenbacks." That is equally true, is it not?

Mr. WHITE. Yes.

Mr. LOVERING. To return to this bill. One of the chief objections which you made to it is in the first and in the fourth sections. You said you would have the notes issued under this bill or any other asset currency bill practically guaranteed by the Government?

Mr. WHITE. Yes, sir.

Mr. LOVERING. Now, I would like to call your attention to page 3, line 8, where it reads:

> And for this purpose the United States shall, on behalf of the bank-note guaranty fund, have a lien upon all assets of the association ratably with other creditors of the bank.

Is not that almost tantamount to the United States guaranteeing it? Why should the United States have that unless it is for the purpose of a guaranty?

Mr. WHITE. In the first place it has no priority over the assets of the bank, and in the second place the assets of the bank may have disappeared entirely.

Mr. BROSIUS. There may be no assets when you come to enforce the lien.

Mr. LOVERING. That would imply the United States should have that power. If it has on that part it has on anything they can get hold of that belongs to the bank. Why should the United States have it? Why should the United States be given that power to collect its debts from the bank?

Mr. WHITE. I suppose the theory of the bill is that the United States is responsible for the care of the bank-note guaranty fund.

Mr. LOVERING. For what reason?

Mr. WHITE. In order to redeem the notes.

Mr. LOVERING. Is not that almost tantamount to expecting the Government to guarantee the payment of those notes?

Mr. WHITE. No; I do not think it is.

Mr. BROSIUS. It is only a trustee handling the funds as far as they last, and if the funds are exhausted nothing is paid.

Mr. LOVERING. I will not say it provides in plain words that it would, but it makes it very strong.

Mr. WHITE. Well, I would make it stronger.

Mr. LOVERING. Exactly. Now, what language would you use there; what would you say to strengthen it?

Mr. WHITE. I would use the language that exists in the present national-bank act, that in case of the failure of any bank to pay its notes on demand the Treasurer of the United States shall pay them. That is in your existing law. It does not say he shall wait until he sells bonds or other things happen, but he shall do so at once.

Mr. LOVERING. He does it at once under this bill.

Mr. BROSIUS. Only to the extent of the funds?

Mr. WHITE. Only to the extent of the means in his hands belonging to the banks.

Mr. BROSIUS. The Government is a trustee and not a guarantor. I looked at the existing law in reference to that very point, and it occurred to me as I was reading it over that the language in relation to redemption, if incorporated in this bill, would come in very nicely and make it what you suggest.

Mr. WHITE. Yes.

Mr. HILL. Referring to this bill. The final working of this bill provides, as I read, that after six years the bank may have 60 per cent of currency secured by bonds and 40 per cent of currency based on assets under the provisions of the bill. Of course the first 60 per cent under the present conditions would be secured practically by $63,000 market value of the United States bonds, at 105, say, for the "twos." Would it not be for the interest of the country if that $63,000 could be put at work in commercial transactions rather than limiting it to $60,000?

Mr. WHITE. That it would be an advantage to the country?

Mr. HILL. And an advantage to the bank, and all around, to everybody. Would it not be better all around if the $63,000 could be put at work and the bank could make its loans so much cheaper?

Mr. WHITE. Yes.

Mr. HILL. Suppose these bonds were put on the market and sold and the bank loaned the capital, and the other $40,000 came right straight down to be the first issue, would not that $40,000 be just as safe as it is now with the $60,000 secured currency having the right of way first?

Mr. WHITE. Secured by what?

Mr. HILL. Under the provisions of the bill, the general assets of the

bank—just as safe as it would be under the provisions of this bill when issued secondary to the secured currency.

Mr. WHITE. If the assets were carefully managed it would be safer under the provisions of this bill by the 5 per cent guarantee fund deposited with the Government?

Mr. HILL. The assets would be swelled $3,000, applicable to the payment of the $40,000 as it is now. It would not be scattered and thrown away because the bonds were turned into money. The bank would pay just the same. It would make no difference whether it was here or somewhere else. It will be in the assets of the bank.

Mr. WHITE. Yes.

Mr. HILL. The preliminary secured-note issue would be just as safe as it is now; why not?

Mr. WHITE. I do not know that I fully understand the question. You have been talking about $3,000 margin——

Mr. HILL. That $3,000 margin is applicable to the payment of the $40,000 secured by assets now?

Mr. WHITE. Yes.

Mr. HILL. Because the $60,000 will take care of the $60,000. Suppose you eliminate the secured note and only allow the bank to issue asset notes to the amount of 40 per cent of the capital—that is, secured by the general assets held by the bank or under some guarantee held here; there would be no difference in the question of safety?

Mr. WHITE. None.

Mr. HILL. Not the slightest. Would it not be more economical?

Mr. WHITE. Yes; as a question of economy, the safety being the same.

Mr. HILL. In regard to this question of Government guarantee you say no country guarantees a bank-note issue except the United States. Do you believe the people of this country would be willing to agree to guarantee asset issues in this country as an exception to all other countries?

Mr. WHITE. Not to-day; but I think they are moving in that direction. I think public opinion is trending that way.

Mr. HILL. Do you not think it would at once cause a demand from the people of the country that if the Government is to guarantee the note issues of banks the Government itself shall issue the money?

Mr. WHITE. It might have that immediate effect, but I think they could be educated to more rational views, as they were in respect of silver money.

Mr. HILL. As a question of pure economy do you not think it would be far better for the commercial instruments of the country to be issued by the banks rather than a continuing enlargement, which our Government guarantee would seem to imply, of the greenback system?

Mr. WHITE. I am decidedly opposed to any increase of the greenback system.

Mr. HILL. I supposed so from what I have read of your writings. Why would you not be in favor of the elimination of the present greenback system and the substitution for it of a credit note issue by banks, properly secured under Government supervision?

Mr. WHITE. I am most decidedly in favor of that.

Mr. HILL. That is what I supposed. Another question I would like to ask you, perhaps you have not looked into it, I have not; how-

ever, I think you have, and therefore I ask it. Suppose that a credit note system was established now, would you anticipate any trouble in this country from there being put on the market, within such a reasonable time as it would take the banks to readjust themselves to it, of the $300,000,000 of bonds that are now held for bank-note circulation?

Mr. WHITE. No trouble whatever.

Mr. HILL. Have you ever considered how far below the present price, for instance, the 2 per cent bonds would go, if the privilege which they now have of issuing bank note circulation for half of 1 per cent tax was not taken away, but bond security was not required. Do you think it would make any difference in the value of those bonds?

Mr. WHITE. They might go down to 97.

Mr. HILL. What harm would be done?

Mr. WHITE. No harm at all.

Mr. HILL. Did not the 2 per cent bonds in recent years go to 97?

Mr. WHITE. I think they went to 95 at one time.

Mr. HILL. When they did the monetary conditions of the country were far different, and then our favorable balance of trade was not $600,000,000 a year. Would there be any damage done to the country to have them go to 97?

Mr. WHITE. Not the slightest.

Mr. HILL. How low have the English consols gone in the last ten years?

Mr. WHITE. I think they went to about 97.

Mr. HILL. Ninety-six.

Mr. WHITE. And they draw 2½ per cent and 2¾ per cent interest, while ours draw only 2 per cent.

Mr. HILL. Then you do not consider that there would be any harm done to the country if the requirement that United States bonds shall be behind national-bank notes was taken away?

Mr. WHITE. No.

Mr. HILL. You think that bugbear could be entirely eliminated from the discussion of a credit currency system?

Mr. WHITE. Yes.

Mr. HILL. I do not suppose it is necessary to ask you upon the question of economy, that it would be far better for the country to have a credit currency system than to continue the greenbacks and have the Government continue issuing money?

Mr. WHITE. Decidedly more economical.

Mr. HILL. Do you think the Government has any facilities for issuing money enough to meet business requirements; is there any relation whatever between a Government debt and mercantile necessities?

Mr. WHITE. None.

Mr. FOWLER. I would like to ask if you do not believe the greenbacks now out should be retired as quickly as possible?

Mr. WHITE. I do.

Mr. FOWLER. So long as they remain out they continue to seriously threaten the credit of the country?

Mr. WHITE. I think there is great danger. We need look back only five or six years to see it.

Mr. LOVERING. I would like to ask one question rather political than otherwise. What are the people ready for in the way of an asset currency to-day?

Mr. WHITE. I do not think they are ready for anything now except

a bill providing means for maintaining the gold standard—either Mr. Hill's bill or some bill similar to it.

Mr. LOVERING. They have grown up to that?

Mr. WHITE. And I do not think they are ready now for anything else, but I think the public mind is tending that way—in the direction of your bill.

Mr. LOVERING. Do you not think it is a good plan to have just such hearings as this, and do all we can to educate them?

Mr. WHITE. I do indeed. That is the reason why I am here.

Mr. LOVERING. And although we may not pass such a bill as this, would it not be desirable to report such a bill as this?

Mr. WHITE. I think so, decidedly, and I am very glad you are taking these steps, and glad if I can contribute even the smallest assistance.

Mr. BROSIUS. This is a theoretical question. Who do you think ought to be responsible for the maintenance of the gold standard in this country, the Government of the United States or the bankers of the country?

Mr. WHITE. I think the bankers ought to be. I do not think it is the business of any government——

Mr. BROSIUS. Whether we have a gold standard or not?

Mr. WHITE. I did not say that; I said it is not the business of Government to maintain the gold standard.

Mr. BROSIUS. If it is the business of the Government, then is not the Government responsible for maintaining the gold standard? Ought it not to be?

Mr. WHITE. Only in the sense that it makes all debts payable in gold dollars of 25.8 grains each. That is a mere regulation as between debtors and creditors.

Mr. BROSIUS. I know; but suppose the Government has no connection with the gold standard and the banks for one reason or another should suspend specie payments, that is the end of the gold standard for the present, is it not?

Mr. WHITE. Yes.

Mr. BROSIUS. Is it not better for the Government of the United States, which authorizes and provides for the gold standard, to be responsible for its maintenance rather than the banks which are private corporations?

Mr. WHITE. I must answer that question in the negative.

AFTER RECESS.

The subcommittee reassembled at 2.30 o'clock p. m., Hon. Charles N. Fowler presiding.

MR. HORACE WHITE REAPPEARED BEFORE THE COMMITTEE.

Mr. FOWLER. Before we adjourned the chairman asked you whether the Government ought not to maintain a standard; that was the pith of his question; to which you responded you believed that the Government ought to have nothing to do with it, but that it should rest upon the banks. Now, I want to ask you whether a Government suspension is a more serious thing—the suspension of gold payments by the Government is a more serious thing—than the suspension of gold payments by banks?

Mr. WHITE. I think it is more so, for the reason that the Government can not be coerced, can not be fined, can not be compelled to do its duty, while the banks can be.

Mr. FOWLER. And is it not also a sufficient motive for a bank to resume specie payments to have them do so at once, so far as their own credit is concerned, in a community where they are doing business?

Mr. WHITE. Certainly, for the reason that the longer a bank remains under suspension the heavier its losses must be.

Mr. FOWLER. Do you recall any illustrations of the length of time, of the length of suspensions on the part of governments, contradistinguished from suspensions on the part of banks, in the history of the United States?

Mr. WHITE. Yes, sir; the Government of the United States suspended from 1862 to 1879.

Mr. LOVERING. Did not they suspend until 1862?

Mr. WHITE. A little earlier; the 28th of December, 1861, I think.

Mr. LOVERING. I thought it was December, 1861.

Mr. WHITE. I said it was 1862, because it was approximately 1862.

Mr. FOWLER. What is the fact——

Mr. WHITE (interposing). I beg your pardon. I did not answer the question fully. I think that the longest bank suspension was from 1814, during the second war with England, to about 1820.

Mr. FOWLER. About?

Mr. WHITE. And that was not a universal suspension. The banks of New England generally did not suspend at that time.

Mr. FOWLER. That suspension you refer to was the United States Bank?

Mr. WHITE. No; I was referring to the suspension of the State banks, caused by the borrowings of the Government during the war of 1812.

Mr. FOWLER. The suspension by banks?

Mr. WHITE. By banks; certainly. The Government was not maintaining specie payments at that time; the Government kept its own money in the banks, and of course when the banks suspended the Government could no longer pay specie.

Mr. FOWLER. Do you recollect whether the New England banks suspended, when the Suffolk system was in force—suspended in 1837 and 1857—and if they did, how long did they suspend?

Mr. LOVERING. It was only a few months.

Mr. WHITE. My recollection is that they suspended for less than a year in 1837, and for a few months in 1857.

Mr. LOVERING. In 1857 they suspended from September to the next May, I think it was.

Mr. WHITE. Something less than a year; yes.

Mr. FOWLER. Do you recall what the depreciation was in those respective periods below par?

Mr. WHITE. It varied in different parts of the country. I can procure those figures for you, but I do not recall them.

Mr. FOWLER. You will have this sent to you so you can write it up, and it will go into the record; it is very important to show what government suspensions have been as compared with bank suspension. You will have this sent to you so you can work that out.

The witness said subsequently that the Government's legal-tender notes went down to 40 cents per dollar for a short time and ranged

between par and that figure from 1862 till December, 1878. The premium in gold disappeared shortly before the time fixed for specie resumption. There was every variety of discount on the notes of failed banks before the war, in different places and at different times, ranging from 1 per cent to 100 per cent. It would be an endless task to collect them. Notes of solvent banks were generally below par in New York before the war, except the few which had a redeeming agency there. Notes of New England banks were generally below par in Boston until the Suffolk system was established.

In 1868 the national debt was about $3,000,000,000. In 1897 it was about $500,000,000, from which I infer that the Government will begin again soon to reduce its debt. In your judgment, should not some provision be made for a currency to take the place of what we now have secured by Government bonds?

Mr. WHITE. I think it is quite indispensable.

Mr. FOWLER. Is it your opinion that such provision should be made immediately in a tentative way?

Mr. WHITE. It is.

Mr. FOWLER. Do you not think also that the changing conditions of business and crop moving during the year require that there should be some such amendment now accompanying our currency system?

Mr. WHITE. I think it would facilitate business very much.

Mr. LOVERING. Mr. White, is there any reason to suppose that, should business require more currency, that without any provision for it it can be had; in other words, have not all the avenues been closed, have we not reached the end of our possibilities?

Mr. WHITE. No; there is always the possibility——

Mr. LOVERING. I mean our great possibilities.

Mr. WHITE (continuing). Of using gold and gold certificates. Gold can be turned into gold certificates now at any time.

Mr. LOVERING. Yes; but we have reached the end of the advantage which was given by the permission to issue bank notes to the full value of bonds—the par value?

Mr. WHITE. I should be inclined to think so; yes.

Mr. LOVERING. We have reached the end, so far as any advantage comes out of refunding?

Mr. WHITE. I am inclined to think so.

Mr. LOVERING. What other source, excepting gold and gold certificates, is there?

Mr. WHITE. None.

Mr. FOWLER. Mr. White, you say that we have gold as an additional resource. Do you think that the condition existing in this country, where the Government is offering to the world gold free of charge, we have any such facility for supplying ourselves, as bankers, from the gold supply of the world as we would have if the maintenance of the standard was thrown upon the banks?

Mr. WHITE. I can not see that it makes any difference, so far as availing ourselves of the gold supply of the world is concerned, whether the standard is maintained by the Government or by the banks.

Mr. FOWLER. Has the Government the same power to attract gold to this country that the banks would have if they were compelled to maintain the standard?

Mr. WHITE. When it is necessary for the purposes of business that

gold should come to this country the banks will bring it here, and the Government will have nothing to do with it except in the possible event of a public loan.

Mr. Fowler. The Government can not charge a premium on gold coin, can it, because it is not a money loaner? If the banks were maintaining the standard and the draft was made upon their gold supplies, if it was a dangerous encroachment, they would at once raise the rate of interest in order to recruit themselves of the gold that they had lost, would they not?

Mr. White. The rate of interest would rise automatically. It would rise in the banks and everywhere else.

Mr. Fowler. Just the same as the Bank of England. If gold is leaving the country they raise the rate of interest to hold what they have, or even attract more, do they not?

Mr. White. I should say the rate of interest rises of its own accord, and spontaneously, and the bank takes notice of it by putting up its rates.

Mr. Fowler. The Government has not that power, has it?

Mr. White. No power in the case at all.

Mr. Fowler. Therefore, while the Government stands in the position of offering its gold free, it has no power whatever to raise the rates; no power to charge a premium, because that would be repudiation. The gold would leave the Government without a protest being made on the part of the Government, would it not?

Mr. White. Yes, sir; but it would leave in the same way without a protest on the part of the banks.

Mr. Fowler. But if the draft was made on New York banks and the Government was not in this at all, and the New York banks were compelled to redeem their notes in gold coin, and a draft was made on the New York banks for $100,000,000 and they could not spare more than $50,000,000, the banks would at once protect themselves by raising the rate of interest from 2 to 6 per cent, and possibly 10 per cent.

Mr. White. In the case that you mention they would suspend; they could not pay.

Mr. Fowler. Well, this would be anticipatory; they would look forward and see this draft was coming and hold what they had got, or, to bring gold from London or France or Germany or Holland, they would make the rates 2, 3, 5, or 7 per cent, and they would hold what they had that otherwise might be transported, or would attract metal from the other side because it would be worth more in New York than it would be in those markets.

Mr. White. My idea would be that the rate of interest would rise. You seem to have the idea that it would be optional in that case with the banks to raise the rate of interest or not. I do not think it would be optional; the rate of interest would rise, and the banks would have to take notice of the fact.

Mr. Fowler. How does it rise? It rises in the banks, does it not?

Mr. White. It rises under the operation of the law of supply and demand, and it will be in the banks and in the insurance companies and among private capitalists.

Mr. Fowler. But the man with his hand on the throttle is the fellow that tells how much steam they have on and how much to put on, and the bankers are the men who have their hands on the throttle.

Mr. White. Oh, yes; you can put it that way.

Mr. FOWLER. They are the immediate factor, I mean.

Mr. WHITE. They are the recording instrument, I should say.

Mr. BROSIUS. Is it a valid theory, Mr. White—the theory that is entertained by English financiers and European financiers—that the movement of gold is regulated by the rate of discount?

Mr. WHITE. Yes.

Mr. BROSIUS. That is a valid theory in countries where banks like the Bank of England and the Bank of Germany and the Bank of France exist. Now, is that a correct theory, or is it a workable theory in a country like the United States, where there is a free banking system, and we have thousands of banks; in other words, when the reserves of the Bank of England are being encroached upon, England can raise the rate of discount and may check the outflow of gold and may attract an inflow of gold by regulating discount rates; but what bank have we in the United States that could do that? We have thousands of banks and they have their own rates. Is that theory workable under a monetary system like we have in the United States?

Mr. WHITE. I should say, in the first place, that the Bank of England records the rate of interest rather than raises it or lowers it. The Bank of England must charge and will charge for its loans what it can get. Its gold is flowing out, the rate of interest rises, and the Bank of England takes notice of it and marks up the rates, and when the gold comes back in excess the rate of interest falls automatically, and the bank takes notice of that fact and marks it down. If it did not do so it would lose business. The bill brokers would take their paper to other lenders to be discounted.

Mr. FOWLER. Would not the New York banks be as sensitive as the Bank of England?

Mr. WHITE. I think so. The New York banks fall under the same law. The same economic law operates here as elsewhere.

Mr. BROSIUS. The same law operates, perhaps; but in a country where plurality of banks prevail, as here, does it operate to the same extent?

Mr. WHITE. I think it does.

Mr. BROSIUS. To the same extent?

Mr. WHITE. Yes, fully. Many persons are misled by reading frequently that the Bank of England has raised or lowered the rate of discount, whereas it has merely recorded a rise or fall that had already taken place independently of the bank.

Mr. FOWLER. Every morning in New York the banks are just as essential, although many in number, are as essential an impulse as the Bank of England, are they not?

Mr. WHITE. You go on the Stock Exchange and you will find a crowd lending money, and the rate is fixed there in obedience to the law of supply and demand.

Mr. FOWLER. And that is the rate for the whole city, just as much as the rate of the Bank of England is for London.

Mr. WHITE. Yes; that is, for call loans. The rate for time loans on collaterals is fixed in the same way substantially, and the rate for commercial paper is indicated in the same way. It is all in obedience to the law of supply and demand.

Mr. FOWLER. Do you consider that our banking law, although we have 10,000 or 15,000 banks, is any more a free banking system than they have got in Canada?

Mr. WHITE. Free banking?

Mr. FOWLER. Yes. Mr. Brosius has used that term and I want to find out what he means by it, by asking you whether banking is any freer in the United States than it is up in Canada. That is, anybody can go into the banking business in Canada or down here that wants to organize a bank.

Mr. WHITE. Are not those large banks in Canada chartered banks?

Mr. FOWLER. You mean——

Mr. WHITE. The 37 banks of issue.

Mr. FOWLER. By the Kingdom or the Dominion?

Mr. WHITE. By the Dominion.

Mr. FOWLER. The charters are granted under a general law.

Mr. BROSIUS. They are chartered by the legislature.

Mr. FOWLER. There is a general law, but the charter is granted by the legislature.

Mr. LOVERING. Do you mean in each case?

Mr. FOWLER. But they are just as certain to be granted there as they are here, although the preliminaries are a little more formal than they are here. There you must conform to statutory requirements. These are presented and the charter is granted. In this country the requirement is that any five people may organize a bank, and then certain other requirements are attached to it. In both cases the banking is equally free, except that the conditions in one case may be a little more onerous than in the other.

Mr. WHITE. But the Comptroller of the Currency is not required to issue a charter to any five people here.

Mr. FOWLER. No; I say it is not the absolute right of any man to organize a bank.

Mr. WHITE. No; or any five men.

Mr. FOWLER. So I can not see why being in Canada is not just as free as it is here, with this difference—that the conditions there, to which you have to conform, may be a little different—it may take you a little longer to get your charter; the conditions may be a little more onerous. To illustrate, they require that at least $250,000 shall be paid up on every subscription of $500,000 and over. That is only a difference in the conditions. The conditions being complied with, the banking there is as free as here.

Mr. WHITE. Then I should think there was no material difference.

Mr. BROSIUS. Mr. Fowler's contention is that the banking is as free in Canada as it is here. He knows that no bank will be chartered in Canada with a capital of less than $500,000.

Mr. WHITE. Yes; that is true.

Mr. BROSIUS. He knows that.

Mr. FOWLER. $250,000 paid up.

Mr. BROSIUS. Now, if he would say to me that if he is permitted by law to travel on the highway only when he carries 100 pounds on his back and I am permitted to travel without anything on my back—if he will say that his locomotion is as free as mine, then I will concede his contention, otherwise not. That is another way of putting it. It is entirely futile for anyone to say that banking in Canada is as free as here, when any five men with $25,000 can start a bank under ordinary circumstances, while there——

Mr. FOWLER. Would banking be any the less free in the United States if our capital limitation was $100,000?

Mr. BROSIUS. Certainly it would not be as free, because freedom means freedom from restriction and impositions, and the more your restriction and the greater your impositions the less freedom in your system.

Mr. FOWLER. Very well. We had a banking system before the last act that provided that a bank might organize with $50,000 capital. Every condition affecting that bank in its organization or creation attaches to-day to every bank that may organize with $25,000 capital. Because we have permitted people to organize with a capital of $25,000, is banking any freer in the United States to-day than it was before we lowered it to $25,000?

Mr. WHITE. The question is a definition of the word "free." If you mean a legal definition, it is equally free in both; but if you place a wider meaning on the word "free," if you take requirements of large capital into consideration, then it is not so free in Canada as it is here. That is, as Mr. Brosius has said, if you require a subscription of $500,000 there as a preliminary condition, and only $25,000 here, then in a broad sense it is freer here than there.

Mr. FOWLER. But the point is this. Freedom depends on this: Anybody can go into the banking business there, just as he can in the United States, providing he conforms to the conditions there; but the operation of a bank there after it is organized is far freer than the operation of a bank here that is organized here. The question of freedom depends simply on this: Whether any of the citizens in Canada can engage in the banking business as a matter of right precisely as they can in the United States. The question of whether the capital is $50,000 or $25,000, in my judgment, is not a suggestion of the qualification of freedom.

Mr. BROSIUS. Well, now, I do not like to hear a man contending for a proposition that has not the slightest warrant on the earth for it excepting the determination of the man that the proposition shall be accepted. I do not like to continue the discussion of the proposition that the Canadian banking system is as free a banking system as the United States, when not one-tenth, not 10 per cent, of the people of Canada can go into the banking system to save their lives, because the conditions precedent are so onerous that they could not possibly do it, because it involves a large amount of capital which only a few people can direct; whereas in the United States the conditions are so much less onerous that almost any five people can raise money enough to establish a bank.

Mr. FOWLER. A man can buy a share of stock up there just as well as here, can he not, if he has $100?

Mr. BROSIUS. You do not mean what you say, I know, because it is perfectly absurd.

Mr. FOWLER. I am surprised that somebody knows more about my own mind than I do myself.

Mr. BROSIUS. You are the first man I ever heard say that the Canadian banking system is a free banking system. The term free banking system is a popular designation of the banking system of the United States, but nobody ever used that in describing the Canadian or English banking systems or any continental system. Now, what has been crystallized into the language of our people it is not worth while for anybody by a mere caprice to strike out and say that all banking systems are equally free. Now, do you wonder that I get tired of that sort of an argument?

Mr. WHITE. Did not the Canadian government adopt our free banking system in 1850?

Mr. BROSIUS. They tried several things. They came within an ace of adopting our bond-secured system. Some of them up there say that they owe their banking system in the first place to Alexander Hamilton. They have discussed it at various times. I have read the history of their banking system a good many times and some of their ablest bankers up there were in favor of adopting the United States system; but there was some reason—I do not remember what it was—that seemed to militate against the system.

Mr. WHITE. Technically the free banking system means the bond-security system.

Mr. FOWLER. That is not where the name originated.

Mr. BROSIUS. No; long before that. The free banking system originated in New York, where they had a free banking system, because everybody could go into banking who could provide funds—put up security.

Mr. FOWLER. That was the point exactly, so it did not inhere——

Mr. WHITE. The safety-fund system was superseded by the free banking system in New York.

Mr. BROSIUS. Really our national banking system was borrowed from the New York free banking system, and that has been known as the free banking system, while the Canadian system was never known as the free banking system.

(Upon motion, the thanks of the committee were extended to Mr. White for his statement to the committee, and thereupon, at 3 o'clock p. m., the committee adjourned.)

SATURDAY, *February 16, 1901.*

The subcommittee having under consideration the bill (H. R. 13303) "To make the currency responsive to the varying needs of business at all seasons and in all sections," met at 11 o'clock a. m., Hon. Charles N. Fowler in the chair.

Mr. FOWLER. Mr. Conant, we are met to hear what you have to say in regard to the Lovering bill, and we would prefer to have you make such statements as you see fit without interruption until you have finished, taking the bill as a text, or make your remarks in general upon the principles involved in the measure.

STATEMENT OF MR. CHARLES A. CONANT, OF BOSTON, CORRESPONDENT OF THE NEW YORK JOURNAL OF COMMERCE.

Mr. CONANT. I am very much obliged to you for the opportunity of speaking first without interruption. I thought I would say a few words on the general principle of the bill, and then, perhaps, the details would be brought out better by questions.

Secretary Gage, Mr. White, and Mr. Breckenridge have set forth so well the merits of a banking currency, and I think its merits are so well understood by the members of the committee, that there is not a great deal to be added; but there were two or three suggestions which

I wanted to present to you on the subject. One is the increased intensity of competition in industry to-day, which makes it necessary that our currency should be organized on the most efficient basis.

Railroad rates and the various items that go to make up the cost of production have been so reduced that it is vital that any competing nation which seeks to control the world market should have every part of its mechanism of banking and exchange organized on the most efficient basis. Money and credit are important parts of this mechanism. It is obvious that, other things being equal, if a cotton manufacturer in South Carolina or Mississippi has to pay 1 per cent more for his money than his rival in Lancashire, England, he would be driven from the Japanese market.

A bank-note currency circulating on the most economical basis will tend to reduce the rate for the rental of money. Of course the rate for the rental of money depends to a large extent on the amount of capital that is offered for loan, but where you have capital it is desirable that it should be transferable into any desired form with the least possible restriction. I think that most of those who have investigated the subject of currency are agreed upon that proposition that credit should have the greatest freedom of movement consistent with the convenience and safety of the public. The question on which differences arise is just what constitutes convenience and safety. But the necessity of the utmost economy and efficiency I think is going to be more keenly recognized than ever before, now that we are meeting other nations in foreign markets. It was less material when we were shut up within the limits of our own country whether our money cost 2 or 3 per cent more than in other countries, but the condition is different when we enter a foreign market like China, or Japan, or South Africa, or any place where we are unprotected by tariff rates or other means.

You all know how handicapped we are in South America by the fact that Great Britain with her great capital and her great colonial banks controls all the banking business and the credit organization of those countries. All bills, even those due to Americans, are settled by drafts upon London. In the first place, all the profits of banking go to the London banker and business man; and, in the second place, the fact that the exchange is consummated there is apt to send the trade there.

While what is embodied in the bill of Mr. Lovering does not solve all these questions in regard to the foreign trade, it provides some of the elements in lowering the rate for the rental of money at home. The other features, the extension of foreign banking, will follow as a natural sequence when we are able to enter foreign markets upon an equal plane with other nations.

Branch banking, as Mr. Breckenridge pointed out, I think, would be a very efficient factor in the matter; but of course I understand, perhaps better than some of the gentlemen who have been here, the political difficulties in the way of doing all that it is desirable to do at once. I think the Lovering bill is a step which will clear the way for other steps. If the modest issue of credit currency which he proposes is authorized and it works well and obviously benefits production at the time of the crop-moving season or at the time of money stringency, it will sweep away many objections which have been felt against such currency, founded, I think, to a large extent upon prej-

udice, and it will be easy following it up with other steps including, sometime, branch banking, and foreign banks with branches, and the thorough organization of our credit system upon a most efficient and economical basis. And it will be of great benefit to several sections of the United States, independently to some extent of foreign competition, to have a banking currency which can be issued upon the most economical basis.

In the South, for instance, if currency could be issued upon general assets properly secured, without obliging the bank to sink its whole capital in Government bonds or to sink in Government bonds the entire capital they propose to loan in notes, transfers will be greatly facilitated and a great many benefits will follow. There will not be merely the single benefit of having currency at the time of the crop-moving season, which is one of the most important results and one of the most obvious, but if we had the means of issuing currency on a more economical basis than at present, even if it was secured by 25 per cent of metallic reserve, it would be much more economical than now. You would have currency in circulation where you now have a system of store credit.

In the first place it would make the country banks more independent. They would be able to issue currency without rushing to New York and borrowing it, producing a stringency in the market and more or less convulsion in the stock market. They would be able to issue their own currency and make their own profit upon it. They would profit by it because they would not have to divide profits with some one else, or, at any rate, the proportion they would have to divide would be very small. Under this bill, for instance, to take a hypothetical case purely, if a Southern bank had no lawful money above its legal reserve, it might be necessary to borrow, say, $10,000 in New York, but that $10,000 would go to constitute the two funds required in the bill, and the bank could issue $100,000 in currency and put it in circulation, and it would serve all the purposes of money in that locality.

But further than the benefit to the bank and to the tradesman, the cotton manufacturer or the planter, would be the benefit to the wage earner and to the smaller tradesmen and mechanics and others in the vicinity; they would have currency to use instead of credit.

Now, as I understand, in many localities they are compelled to get credits at the country stores and thus run along until they get some money from the sale of their crops to pay what they owe. The inevitable result is the storekeeper controls the situation and fixes his own terms for credit. He fixes them by putting high prices on what he sells. It is not possible for the purchaser, the mechanic, or the cotton hand, or the farmer, to say to the storekeeper, "I am going some where else; your prices for such agricultural implements and tools as I need are too high." The storekeeper would reply, "Well, you owe me a big bill, you had better pay it; and, moreover, I shall not take your crop when it ripens; you can not dispose of it to this little rival of mine; he has no facilities for handling cotton or your produce; you must trade with me or nobody, and you must pay my prices."

If this wage earner or farmer had the currency, the bank notes, he would be independent; he could pay his bills as he went along to a considerable extent. Of course he could not pay them always if he had not the capital, but the fact that more currency would be in circulation than before would enable him to have currency instead of a mere

credit to a greater extent than can be the case when there is nothing but legal-tender money in which the whole capital of the bank is sunk in order to obtain it.

Practically all the money in circulation in this country represents, for the holder of it at least and for the banks, the cost of gold money; it is either gold or greenbacks, which are a credit money to the Government but are not credit money to anybody else. A man can not get them without paying gold, and no bank can get them without paying gold or its equivalent. The same is true of the national-bank notes. They represent the sinking of an amount of capital equal to their face value, and more usually, whereas a credit currency, while the individual could not obtain it without exchanging value for it, the bank would be able to issue it in return for other credits, and it would not represent the cost that the existing forms of currency do.

The question was asked here the other day, and very properly, what demand there was for this bill. It was a proper question and very pertinent, and I suppose the implication was, so far as there was any implication behind the mere search for information, that the present supply of currency was adequate and satisfactory.

It is true that the present currency supply is large, and in some respects it is satisfactory; but I think not in every respect. I won't go into all the reasons why a substitute should be preferred, because I am not proposing, and Mr. Lovering, as I understand, is not proposing, a substitute for all existing currency, but only a supplement. But it seems to me one of the clearest deductions of ordinary political sagacity that we should look ahead far enough to anticipate possible demands. It is much better to do that, for it is obvious that within one, two, or three years there is likely to be a material pressure for currency and the existing means are not going to supply it. It is proper that we should anticipate that situation to the extent of providing the machinery for meeting it.

It may be that under the Lovering bill that little would be done, that few notes would be taken out for a year or two; but it would be much better to have a law on the statute books ready for use, and tested by use, than to wait until a great demand for money comes on, a demand for $100,000,000 or $200,000,000, and then, even if Congress was in session—which it might not be—to have to come here and ask for legislation to meet an emergency. It would be hasty legislation, and even if well considered there might prove to be slight defects in its operation and people would not know how it was going to work.

As I understand the object of this bill, it is to give this system a fair test in the next crop-moving season, or the following one, if any additional currency is then needed, and to test the operation of the bill, so that if any trifling fault of detail appeared it can be corrected before the periods come for further expansion, when there will probably be a very material need for currency.

Now, the fact that there will be a material need for currency in the near future I think is patent from an examination of the present status of the bank-note currency. Practically to-day all means of expansion in currency in the United States have ceased except through the production and importation of gold. The refunding law enabled the banks to increase their circulation some $100,000,000, or a little more than $100,000,000, I think; but they have ceased, or very soon will cease, to avail themselves of the privileges of that law, because the available bonds will be exhausted. The Secretary of the Treasury

has suspended refunding, and there are now less than $70,000,000 of the 2-per-cent gold bonds on the market outside of the banks. That is the theoretical limit of the means of increasing the bank-note currency in the future.

Mr. BROSIUS. Do you recall the amount of the 2 per cents held by the banks now?

Mr. CONANT. Yes. I have here the statement for January 31. The amount is $303,000,000 to secure circulating notes, and $72,500,000 to secure public deposits. That is a total of $375,500,000, which has been increased by about $3,000,000 during the present month. The banks have been increasing from day to day this month.

Mr. BROSIUS. What was the total sum of 2 per cents?

Mr. CONANT. The total refunded?

Mr. BROSIUS. Yes.

Mr. CONANT. About $446,000,000. There is to-day a little less than $70,000,000 outside the custody of the national banks; but, as I was about to say, you recognize that the theoretical difference between those is much more than the amount of bonds which the banks would ever be able to obtain. That is, some of them are held in trust funds and would not be brought into the market by a mere fractional advance in price.

Then, of course, this committee all understand that in the case of any bonds, either the 2 percents or any others, rise in price, resulting from a demand, necessarily checks the demand for banking purposes, because it reduces the profit on circulation so materially.

Now, the quotations of October 31 for the twos were more than 1 per cent less than they are now, and yet even then the banking profit was only 1.051 per cent—not 1.5 per cent but 1.05. Now, I believe bankers are indisposed to embark in circulation unless they can make a profit of 1 per cent at the very lowest.

These figures are based upon the assumption that a given amount is invested in bonds, that all the circulation is taken which is authorized by the law on those bonds and is actually in use, earning a profit.

Mr. BROSIUS. Kept out all the time?

Mr. CONANT. Yes; and the net banking profit on those gold bonds is barely over 1 per cent. It is very much less than 1 per cent in every other case; in fact less than one-half of 1 per cent except in the case of the fives, of which a very trifling amount remain out.

I have not any figures to show exactly what the difference would be if the banks had out a less proportion of circulation than the whole amount to which they are entitled; but I should say, if a quarter of it were not in use, not earning a profit, that it would wipe out the banking profit.

Mr. FOWLER. You mean if a quarter of it was not in circulation?

Mr. CONANT. Yes, sir. Of course it is understood that the banking profit is the profit over and above what the capital invested would earn by a direct loan. There is no motive to go into the banking business, and maintain a bank and a whole lot of officers and rent a building and have a lot of correspondence with the Comptroller, and be out of the interest on your money for a considerable period in order to do a banking business, and earn no more than you would by directly loaning your money to some individual or to some corporation, or depositing it in a trust company and loaning it to them and receiving a profit upon it. These figures are based upon money at 6 per cent; but now that circulation is authorized to the par value of the bonds, it makes

very little difference what rate you take in figuring the banking profit. Of course it makes a difference in the total profit, but not in the banking profit, whether you take 3 or 4 or 5 or 6 per cent.

Mr. Cox. You say it makes no difference?

Mr. CONANT. In the banking profit. It does in the total profit; but if you can loan money at 5 per cent direct and you can loan it through a bank and make 6 per cent, the difference between the two—1 per cent—would be nearly the same if money is at 3 per cent and you can get 4 through the bank. That is, the difference in the rate does not affect the excess of profit by going into banking over what you would get by a direct loan of the money.

Mr. Cox. You are making a comparison between the banks and a private loan of the money. Do I understand you?

Mr. CONANT. Yes, sir.

Mr. Cox. You are making a comparison now between a loan by the bank and a private person?

Mr. CONANT. Yes, sir.

Mr. LEWIS. To make it plain, a bank makes just 1.05 per cent upon taking out circulation with bonds as a basis. That is 1 per cent to begin with.

Mr. CONANT. On the gold bonds; but very much less on the others.

Mr. LEWIS. I mean on the gold bonds.

Mr. CONANT. Yes, sir. This price of bonds, as already stated, is at least 1 per cent below the present prices, which would materially reduce the profit. It would not reduce it 1 per cent, however, because that 1 per cent difference in price is of course computed over the whole period the bonds run.

Now, I think these facts regarding the prices of bonds and the supply show that there is very little probability of currency expansion in the future by bank-note circulation under existing law. I should say that even under severe pressure for money there could not be an increase in bank-note circulation in all the years to come under existing law of over $40,000,000, and probably not that, because pressure for money does not result under our system in stimulating the issue of bank-note circulation. It is just as profitable, as I have shown, within a small percentage, to loan the money direct as to put it into bonds, especially when you pay a premium on the bonds. The influence of the premium, I think, has been gone over here a great many times.

If a man sinks a premium in order to get notes when money is high, of course he loses the high rate he might earn on the premium, so that the high rates he gets for the notes are reduced by his loss on the premium as compared with what he would make by a direct loan. If a man has $136,000, for instance, and money is at 10 per cent, he would get $13,600 by loaning it direct. If he puts it into bank notes he gets only $100,000 in notes, upon which, at 10 per cent, he would get only $10,000. He has a loss there of $3,600, to be covered by interest on the bonds and other elements of the problem which are too intricate to go into orally.

A very important factor in that matter is the use which can be made of legal-tender money. If a bank has $100,000 in legal-tender money over and above its required reserves against deposits (taking the reserve cities), it has the power of making loans equal to four times that amount, or, rather, it can hold deposits, which in many cases are only an offset to loans, to four times its holdings of lawful money, whereas if converted into notes the money could, of course, only be lent once. So

that, from a purely hypothetical point of view, $100,000 in the hands of the bank would afford a reserve against loans for $400,000, with which they would earn $40,000 at 10 per cent, whereas if they put it in notes they would get a good deal less than $100,000 in notes. If it was in these high-priced bonds, the long-term fours, they would get something like $70,000 in notes, on which they would earn $7,000.

What the Lovering bill undertakes to do is to give to the note-issuing functions of the bank some of the same advantages that the loaning and deposit functions have, to permit a man to secure notes secured by that cash reserve to several times the amount when they are needed, just as he makes deposits or loans. Of course the only difference between a bank note and a deposit is the form of the obligation. In the one case a man has to write a check which is really an informal bank note, and in the other he has the printed form which he carries about with him.

Mr. Cox. What is the per cent under this bill? It escaped my mind. If you authorize the banks to issue upon their own assets, what is the per cent?

Mr. Conant. Only 10 per cent of their capital first.

Mr. Cox. Ten per cent of their capital?

Mr. Conant. Yes; and that under certain conditions, you understand.

Mr. Cox. Well, now, we have the reserves and then we have the assets of the banks for the security of the depositors. If you issue bank notes—not national-bank notes, but bank notes upon the assets of the bank—they are a first lien on the assets of the bank?

Mr. Conant. They are not under the Lovering bill.

Mr. Cox. They share, then, equally with the depositors?

Mr. Conant. Yes, sir.

Mr. Cox. Now, let me call your mind to this point: I step into a bank to-day and deposit $1,000—the amount cuts no figure, I simply say $1,000—and I put in that much money and I have certain security for the refunding of that money, which are the assets of the bank, after the national-bank notes are satisfied, which are satisfied by the bonds deposited. Now, do you think that it is proper for Congress to pass an act that partially destroys the security to the depositor after he has put his money in the bank?

Mr. Conant. I am very glad you asked me that, because it reveals an idea which I think many people have, that a note issued by a bank under the credit currency system is issued for nothing. Now, in fact, if you go into a bank and deposit $1,000, you swell their deposit account by that much.

Mr. Cox. But that is after the act has passed. I do not think you probably caught the question.

Mr. Conant. I think I did.

Mr. Cox. I put the money in a bank, say a month ago.

Mr. Conant. Oh, you mean this is going to impair vested rights?

Mr. Cox. I do not call it that, but I am putting it on a broader ground than that. Would it be proper for Congress by legislation to impair or destroy—because if they can impair they can destroy—a security which the depositor had when he put the money in?

Mr. Conant. I do not think that the security is impaired. I will explain why. Under existing law the banks are required to hold certain cash reserves against deposits. The bill of Mr. Lovering does not modify that. A bank desiring to issue asset notes could not issue them

if it had not any money above its lawful cash reserves. It could only issue them by using its surplus cash to constitute the two funds required by law in the Treasury. But more than that, let me go on. If they issue a lot of notes which constitute a new obligation on their part, in addition to their previous obligations, do you not see they get something for them? They get commercial paper; they increase their assets by the amount of the increased issues. Of course they do, unless they are giving away notes, and they may give away deposits just the same. It does not affect the depositor at all; it only increases the facility of the bank to do business.

Mr. Cox. The assets of the bank are primarily liable after the bonds. The bonds are presumed to pay the circulating notes. The Government redeems those notes and then takes bonds and reimburses itself, but the depositor, before the passage of this contemplated act, goes and deposits his money. What is his security? His security is the reserve fund; his additional security is the assets of the bank.

Mr. Conant. Yes, sir.

Mr. Cox. Now you come and say, "Issue your notes on the assets of the bank to a certain per cent." You have then made another class of men, the note holders of the bank, partly interested and entitled to receive part of the assets of the bank as against the depositor, when before he was entitled to receive it all. Now, my point is this. I have heard your explanation—let us go to something else.

Mr. Conant. I would like to add to the explanation. Do you not propose to let me say anything further on the subject?

Mr. Cox. I do not propose to interrupt you if it is disagreeable.

Mr. Conant. No; it is not; but you said you were going to something else and I wanted to add to my answer. It is true the depositor to-day has a lien on all the assets of the bank, and there would be additional claims against the bank, but the assets would be increased in corresponding ratio and the new claimants would share only ratably upon the assets. The only case when it would make any difference would be the case where the new assets would be worth less than the old assets, and there is no reason to suppose they would be worthless; there is no reason to suppose a bank, having increased power to loan, would make on the average worse loans than it had made before. Your whole assets consist of loans—that is, commercial paper of business men——

Mr. Cox. I understand that. One word and I am done. Now, take your explanation of that. As the law stands now, with the reserves and so forth, the depositor has the first lick at it after the notes are paid, and we understand how——

Mr. Conant. He has substantially the only claim, except trifling ones for salary——

Mr. Cox. I do not pay any attention to that. Now here is the bank. That bank issues its notes and creates an additional burden upon its assets.

Mr. Conant. No——

Mr. Cox. Wait a minute.

Mr. Conant. Not upon the old assets, but——

Mr. Cox. It has created a——

Mr. Conant. Upon additional assets.

Mr. Cox. But I understand this law to mean that the only lien the note holder would have is the money which the bank receives for the new note.

Mr. CONANT. No——

Mr. COX. That can not be the law.

Mr. CONANT. They would be fused into one; the assets would be fused into a homogeneous mass, but there is no reason to believe that the amount distributed to the new note holders would vary or that the assets would yield less, that less be obtained for the new notes than the old loans.

Mr. COX. You are running ahead of me. I will get to the assets in a minute. We have it up to the point where the depositor and the note holder of the bank, not the old notes, but the bank notes, are equally interested in the assets of the bank, pro rata, if it should be insolvent. I suppose you agree on that?

Mr. CONANT. Yes; that they are equally interested.

Mr. COX. In the assets of the bank. Now, that creates upon the assets of the bank an additional obligation that did not exist when the depositor put his money in there. Now, do you think such legislation as that right?

Mr. CONANT. I do, because——

Mr. COX. One moment. You answer me back by saying that the assets of the bank are increased by virtue of the issuance of notes. That is your only answer to that—that is the clean-cut answer to that?

Mr. CONANT. By the assets obtained for the notes, certainly, and by other assets which I will point out in a moment.

Mr. COX. But do you think that you have a right to say to the depositor, who is a creditor of the bank—for the relationship of the depositor and the bank is creditor and debtor, he is a creditor of the bank, and when he becomes the creditor there are certain assets there which are pledged for his payment. Now, my point. If you assume that you receive for the bank notes the same amount in value, and thus increase the amount of the assets of the bank, you have also increased to that extent the amount of the liabilities of the bank, because it must take up its notes. So the question reverts back and sticks there. Have you a right to do that without the consent of the depositor—the original depositor that put his money in there before the bank notes were issued?

Mr. CONANT. Yes, sir; that is one of the essential elements in banking business. If your proposition, that the position of a depositor depositing $1,000 when the bank had certain assets could never be changed, that the bank could not accept other deposits or make other loans—if you assume that his status must remain constant, then that would be the end of banking business. It would put an end to banking business to assume a static condition.

Mr. COX. Are you satisfied with that answer?

Mr. CONANT. Yes, sir.

Mr. COX. Doesn't the depositor put his money in there knowing and expecting that another depositor could do like he does?

Mr. CONANT. Yes, sir.

Mr. COX. But that is not this point. Here is the point. You take the assets of the bank and create a new liability upon it without the consent of the original depositor, and the only answer you have is that you increase the assets of the bank.

Mr. CONANT. No; that is not my only answer, but you have not given me an opportunity——

Mr. COX. Well, I do not want to take away your opportunities.

Mr. CONANT. Let me explain this point in regard to it. When you increase your liability by issuing notes, and secure what are presumably good assets, or at least, on the average, as good as those the bank already holds under its usual method of conducting business, you do more for your depositor, because in issuing those new notes you require the bank to sequestrate and deposit in trust with the Treasurer of the United States two funds to the amount of 10 per cent of the new liability. So, if the bank fails and the claims are shared pro rata, including these new claims, and the old claims, they do not really share pro rata because the two funds are first available to meet these new claims, and it might result that the old depositors would have more money than under existing conditions. There are more general assets left because the notes draw less from the general assets.

Mr. COX. I see we do not agree.

Mr. FOWLER. Let me ask a question, if you will permit me. To illustrate the principle involved and for the purpose of the question I will use Mr. Hill's name and Mr. Lane's. If you were a banker, Mr. Conant, and Mr. Hill comes to you to borrow $100 and he wants it in notes, and you take his note to the bank, payable in ninety days, and give him your notes, you establish a liability of $100.

Mr. CONANT. Yes, sir.

Mr. FOWLER. And you have a bill receivable of $100. Would the position of the bank in that case be any different from what it would be in this case: Mr. Lane comes to the bank and makes a deposit of $100 and you credit it on his book subject to check. You turn around in the next breath and loan Mr. Hill the $100. Are you, as a banker, in any different position than you would have been if you had taken Mr. Hill's note and issued him the notes?

Mr. CONANT. No, not at all. These notes are only a legalized form of check book.

Mr. FOWLER. And the liability of the bank is just the same in one case as it is in the other?

Mr. CONANT. Yes, and better secured by the bank funds in the custody of the Treasury——

Mr. FOWLER. Just a moment; I do not know that I can agree with you there. That comes out of the assets of the bank, does it not? I want you to follow my other question without interruption. Your position so far as liability is concerned is exactly the same in both instances.

Mr. CONANT. Yes, sir.

Mr. FOWLER. Your position is exactly the same so far as bills receivable are concerned?

Mr. CONANT. Yes.

Mr. FOWLER. Because you have identically the same obligation.

Mr. CONANT. Yes; Mr. Cox's point might have some force if the bank were in a static condition—if a depositor turning in money under an assumed condition had the right to think that the bank thereafter would do no business, but was going into liquidation—but that is not the fact in banking business. The creation of new liability might change the nature of the trust. That was done when circulation on bonds was raised to par. The holder of the bond-secured notes had the right to assume that $100 was deposited in the Treasury for every $90 he held, and this has been changed so that only $90 is now deposited. The Government violated that trust in a sense by impairing the security; and that would be subject, I think, to some legal criticism;

but Congress did it, and I have not heard a word of complaint. They declared that thereafter there should not be $100, but only $90 in bonds for each $100 in circulation. And this act does not go far enough in impairing security to make any practical difference. In fact, it rather increases the resources of the bank for depositors. It does not go far enough to be subject to legal criticism, in my opinion. If one desired to make a refined legal argument he might do it, but practically I do not think it has any serious significance.

Mr. HILL. The accumulated fund paid by taxation in previous years under the terms of this bill will not be counted as the assets of the bank at any time.

Mr. CONANT. No; only that portion first paid in which the Comptroller is authorized to reimburse. The proceeds of the tax would not be returned to the bank.

Mr. HILL. And would not be counted as a part of its assets; but in case of failure it would then come forward, whatever accumulation there had been under the terms of this bill, and relieve a part of the liability created by these additional notes without in anyway decreasing the additional assets which had been furnished to the bank by the loan of those notes.

Mr. CONANT. Yes, sir.

Mr. HILL. Is not that correct?

Mr. CONANT. Yes.

Mr. HILL. So that the depositor, as a matter of fact, would stand in just so much better position by the issue of these notes as was represented by the amount of the accumulated tax.

Mr. CONANT. Not quite that. The accumulated tax, I do not understand Mr. Lovering credits in full to the bank; but this would be true, that these funds would make good to the note holder any deficiency in the assets and would tend, according to the ratio of assets to be distributed, to increase the amount available for paying other claims.

Mr. BROSIUS. I would like to inquire there as to your understanding of the Lovering bill. Which fund is first availed of, in case of a failed bank, to pay the notes—the safety fund or the assets of the bank?

Mr. CONANT. The safety fund before the general assets, but first, of course, the current redemption fund. If the notes of a bank which had failed were coming in for current redemption I take it ordinarily the money in the current redemption fund would first be exhausted, and then they would recur to the guarantee fund; no new notes would be issued to the bank, so it would amount really to a double safety fund.

Mr. BROSIUS. But there are two resources—the safety fund and the assets of the bank. Which is first availed of?

Mr. CONANT. I think the bill provides that they shall be redeemed out of the safety fund first—and then that the safety fund shall be a lien——

Mr. BROSIUS. That was my recollection, but I was not sure.

Mr. COX. It comes out of that safety fund first.

Mr. BROSIUS. The safety fund is first exhausted.

Mr. CONANT. "Whenever the Comptroller" and so on "is satisfied"——

This is what the bill says—

that any banking association has refused to pay its guaranteed bank notes on demand in lawful money, he shall direct the redemption of such notes from the bank-

note guaranty fund aforesaid, and such notes shall thereupon be so redeemed. The Comptroller of the Currency shall collect for the benefit of said fund from the assets of the bank and from the stockholders thereof, such sum as, with the bank's balance in the bank-note guaranty fund, shall equal the amount of its guaranteed bank notes outstanding. And for this purpose the United States shall, on behalf of the bank-note guaranty fund, have a lien upon all the assets of the association ratably with other creditors of the bank.

Mr. HILL. So, as a matter of fact, the bank-note guaranty fund is so much additional protection to depositors.

Mr. COX. Mr. Chairman, pardon me right there, while you are on that point. You pay the guaranty fund, we will call it; that is part of the assets of the bank. I do not care whether you collect it by taxes——

Mr. CONANT. But under existing law it is not set aside free from impairment——

Mr. COX. Under the existing law there is no such fund as that.

Mr. CONANT. No.

Mr. COX. But you collect a guaranty fund by taxation, we will say. That is collected off all banks that take out circulation?

Mr. CONANT. Yes, sir.

Mr. COX. Not one bank, but there is no bank that has not taken out circulation. Now, that is a tax on the assets of the bank that takes out the circulation.

Mr. CONANT. You mean the levy of the one-half of 1 per cent a year?

Mr. COX. Yes.

Mr. CONANT. Certainly it is.

Mr. COX. The taxes are an incumbrance upon a bank——

Mr. CONANT. Do you maintain, then, that the collecting of any tax by law is a violation of the trust between the bank and the depositor?

Mr. COX. No; but I doubt the propriety of creating a guaranty fund for the redemption of notes. Let me call your attention to this: That law provides that these notes shall be redeemed out of this guaranty fund.

Mr. LOVERING. The notes of a failed bank.

Mr. COX. Yes. Now, its notes are paid by the guaranty fund, but suppose the guaranty fund will not pay them, then what are you going to do? It seems you would assess the stockholders.

Mr. CONANT. In the same ratio you can for other claims. The stockholders would be liable for the increase in liability if the assets had been dissipated, certainly.

Mr. COX. Then, you make the stockholders stand security to the bank for the redemption of these notes?

Mr. CONANT. Yes; but the bank can not issue these notes without the consent of its official board.

Mr. LANE. The stockholders have that liability now?

Mr. FOWLER. It does not change the double liability under the law.

Mr. CONANT. He contends it adds to the liability simply.

Mr. COX. I mean it increases the burden of the bank.

Mr. CONANT. Certainly; every loan does that.

Mr. COX. I know a loan increases the burden.

Mr. CONANT. This is optional, you know, with the bank. No bank is compelled to adopt it.

Mr. COX. I understand that; of course, you can not force the bank to do it. Now here is my point, and I want to see what you will do with this. If your theory is correct why not permit the State banks to issue their notes in the same proportion?

Mr. CONANT. Simply for the reason that I think a homogeneous and uniform currency, secured by laws which people understand, which will enable them to feel that notes in their hands are of a uniform and secure character, is preferable to forty-five local currencies.

Mr. COX. How many countrymen do you think could distinguish or would distinguish between the national-bank notes that we use now and the notes issued by the bank? There would not be one in fifty.

Mr. FOWLER. Do you not think a man from Tennessee, who went to New York with a pocket full of bank notes issued by a State bank in Tennessee, would discover the difference when a discount of 5 or 10 per cent was fixed in New York City?

Mr. CONANT. Yes; but I agree with Mr. Cox, in a measure, that a State bank, or any bank, or any individual should have the right to issue his credit in any form that people will take; but for the purpose of circulating as money it is desirable that the States should interpose and enforce regulations which insure the convenience of the public, and included in that convenience is security.

Mr. COX. We tried that once.

Mr. CONANT. I think the need for uniformity is one of the things that has militated against that, and the conditions are very different from what they were fifty years ago. We have such a homogeneous and compact country, and railroad communication is so rapid that there is more need for uniformity now than fifty years ago.

Mr. FOWLER. And what you need it for more than anything else is to protect the citizens against the discriminations of bankers in other States?

Mr. CONANT. Yes. The fact that such discriminations occur is one of the evils of lack of uniformity.

Mr. BROSIUS. I would like to ask you a question as to the rate of interest. You have stated very clearly and strongly the desirability of promoting the facilities for our manufacturers and the demand of our industries, by the low rate of rental for money. Is there not a limitation upon that that must be guarded? For example, supposing our facilities become so great in this country that the rental of capital is lower here than it is in any other country. Of course it would give our manufacturers an advantage in the competing markets of the world; but would it not affect the movement of gold, would not that condition of things be liable to affect the movement of gold and cause an outflow of our precious metal?

Mr. CONANT. That would depend altogether on our banking laws.

If you require the national banks, as you do, to hold 25 per cent in lawful money in their cash reserves in the reserve cities, and 15 per cent outside the reserve cities, that law lays a firm hand on the gold or other lawful money. We have reached the condition where there is not much other lawful money. There are $346,000,000 of greenbacks, but they are a constantly diminishing ratio to the whole volume, and if your law requires that in order to issue notes and make loans you shall hold 15 or 25 per cent in lawful money, and shall hold other lawful money in reserve against bank notes, I think you will protect the situation. If there was no law at all governing reserves you would be subject to this danger. Banking would be stretched to its utmost. Cash resources would shrink to their lowest point, and what one man thought was safe and another man did not would tend to become the common limit, because his rivals could not do business unless they fell to the same reserve limit. And that, I think, is a conclusive reason

why the law should require specified legal reserves. There I differ from many theoretical students who maintain that the reserve should be left to the discretion of the bank. That is the case in Scotland. But upon one or two occasions banks have been established there which have banked recklessly and have threatened to overthrow the system, until they were frozen out by the conservatism of the other banks. But there the problem was different from what it is here; there there are only twelve banks, which are powerful, with their branches, and they drove these reckless banks to the wall. I think there would be no danger, however, from low rates of interest resulting in the expulsion of gold if your reserve laws were adequate.

Mr. BROSIUS. Now, supposing the reserve laws required a certain amount of gold to be in the banks. Of course, that gold can always be obtained from the banks by presenting notes, and if people desire to send gold abroad to get higher rates of interest for it, it could be obtained from the banks. I can not quite see yet how the law in relation to reserves is going to affect the question of the movement of gold, which is influenced, as a fundamental proposition of finance, by the price of money, by the rental value of money.

Mr. CONANT. But do you not see that if your banking law is proper, if not unsound and inadequate, that a stringency for money would soon arise which would raise the rate of interest? Naturally there would be a flow of gold under low rates of discount, but the rates of discount would rise here if exports occurred, because that would tend to diminish the cash available for reserves. People would bid higher for it then and gold would be attracted back again. That would be the case in the absence of law to a certain extent.

Mr. FOWLER. Is it not true, generally speaking, almost universally speaking, that the commercial rate is higher in the United States than it is throughout Europe, and that the call rate is always higher in Europe than it is in the United States?

Mr. CONANT. The commercial rate is higher in this country and has been nearly all the time until, perhaps, recently, and even to-day I do not know but what it is as high; but in regard to the call rate being always higher in this country——

Mr. FOWLER. Always lower than in European centers, with those rare exceptions.

Mr. CONANT. No; I should hardly say that, because the rate of the Bank of France, you know, was 2 per cent for years, and the rate of the Bank of England was 2 per cent from 1895 down to the stringency in 1898, and even earlier than 1895.

Mr. FOWLER. Take the last five years. Outside of the periods of spasm, has not call money been lower in New York City than it has been throughout Europe; and at the same time, and concurrent with it, has not uniformly, and almost universally, the commercial rate been higher in this country, higher in New York and Boston, than throughout Europe?

Mr. CONANT. I think that is true, but that has been due to the peculiar pressure for money in Europe during the last three years. I do not think I would extend it five years; I would say three years.

Mr. FOWLER. The point I want to make, which is supplemental to what you had asserted in answer to Mr. Brosius, is that the burden being thrown upon the industries, as represented by the banks of this country, would at once raise the price of credit so as to fix the price on gold, which would bring it here.

Mr. CONANT. Yes, that is true; and it would undoubtedly operate in that way. The only occasion in which a situation like Mr. Brosius suggests might arise would be a very loose and dangerous system of bank issues by which you could float great masses of paper without any cash reserves, and even that danger is now nothing like what it would have been fifty years ago in this country, because our business now is not done so much by bank notes. A New York bank, even though authorized to issue ten times its capital in notes, would not and could not do it; it would have to have its 25 per cent legal reserve against deposits.

Mr. LOVERING. I would like to ask a few questions that will require short answers. I would like to get them into the record, if possible. Mr. Breckenridge stated here the other day that he objected to an issue of these guaranteed notes based upon the issue of the bond-secured notes on the ground that it would prevent banks from taking out new notes. Do you think that under this bill it would have that effect?

Mr. CONANT. No; not practically. Of course Mr. Breckenridge's point is well taken from a theoretical point of view. I talked the matter over with him a little myself, but I do not think it has great practical force.

The bill provides that a bank shall have 25 per cent of bonds as a minimum and that the bank may have in credit notes 20 per cent of its bond deposit. Now, inasmuch as it is required to deposit 25 per cent of its capital in bonds, there could be no fetters put on the issue of credit notes up to 5 per cent of its capital, because a country bank is necessarily obliged to have its 25 per cent of bonds anyway, and therefore it would be put to no new obligation in order to issue 5 per cent of credit notes. If the bill required that the ratio of credit notes should be constant to the amount of bonds deposited, I think it might fetter a bank occasionally, but the practical fact is that in nearly every case the banks have all the bonds required to get all the credit notes authorized under this bill. That is not absolutely true, but it is very near being true.

Taking the last bank statement now by groups of States, the Southern States had a banking capital amounting to $69,102,135. They had bonds to secure circulation amounting to $36,770,080; that is, they had a little more than 50 per cent of their capital in bonds. Of course it is possible that they were not distributed with absolute evenness, but upon the average, and presumably in most cases, they had all the bonds they would need to get the maximum circulation allowed by this bill, and the same would be true after three years or after six years, so long as they had the ratio of bonds they now hold. So I do not think Mr. Breckenridge's objection is a practical indictment of the bill. Of course, if I were free to pass any sort of a banking law I would not have any such relationship; but there is a strong practical reason for such a relationship, and I think it was pointed out by the Secretary of the Treasury.

Mr. LOVERING. It was pointed out by Mr. Breckenridge, too.

Mr. CONANT. That is, it is not desirable to force the bonds on the market and force down the price of the bonds, which would lead all the banks to oppose such legislation as this.

Mr. LOVERING. Is it recognized that the guaranty fund provided for under this bill would be adequate?

Mr. CONANT. Yes, sir; I should say it would be completely adequate.

Mr. LOVERING. That is the same question I asked Mr. Gage, and I thought I would like to have your answer on record.

Mr. CONANT. My answer is based on figures I have often made.

Mr. LOVERING. It has been frequently urged that in the case of the New York safety fund it was insufficient. Was that the case, and why was it insufficient?

Mr. CONANT. Primarily because the fund was used to pay all claims against the bank, depositors as well as note holders.

Mr. LOVERING. The tax was 1 per cent?

Mr. CONANT. One-half of 1 per cent. But there was not the preliminary deposit of 5 per cent required as under your bill. I was looking at that the other night. I think it came up here. At any rate, I was interested in it, and perhaps the facts which I found I might just as well put into the record. They related to the earlier years of the system, when the largest failures occurred. They do not cover the final settlements, which were perhaps a little more favorable than these figures, but I took the capital of all the banks chartered under the safety-fund law, which stood in 1841 at about $33,000,000.

Now, if they had put up the 5 per cent required by your bill and had taken out a circulation to the full amount of their capital, instead of only 10 per cent, they would have put up in that way alone $1,600,000. They would have paid, on the averag, efrom 1829 to 1841, when the worst failures occurred, about a million dollars. That is found on examining the list of incorporations. I found the average, on the whole, about so many each year up to 1841. So I took half the period and computed the tax on all of them, instead of computing it for the whole period on all of them, thinking that that would give about the amount they would have paid into the fund. They would have paid a little over $1,000,000, so that under the terms of your bill up to 1841 it would have been $2,784,116, while the amount they actually had was $914,000, or about one-third, because they had not made the preliminary deposit. That fund was compelled to meet the claims of all the banks, and then there were a great many other elements at that time that would not enter into the situation now.

Mr. LOVERING. Do you think there is sufficient homing quality in this currency?

Mr. CONANT. Yes, sir; I think there is, because it is to the vital interests of the banks to send the notes of other banks in for redemption. They are in their hands, and good for nothing. Of course they can be paid out, but they are not good for lawful reserves, and I assume that a bank finding itself with a considerable number of these credit notes would send them in for redemption in order to get lawful money, and this money would not only strengthen their reserves, but it would enable them, if it was necessary, to increase their deposits and their loans practically four times as much as if they merely held the notes for cash. For instance, a bank has a certain amount of lawful reserve in lawful money and a corresponding amount of deposits, and it has $100,000 in notes of other banks. While it might loan those notes it would be able, by exchanging them for lawful money, to create reserves, which in the case of city banks would enable them to make loans of $400,000, and in the case of country banks, $600,000. So their interest would be very strongly to exchange their notes for lawful money, and thereby, of course, reduce the circulation if it was

not profitable for the bank which had issued the note to reissue it in its own locality.

Mr. LOVERING. On the other hand, do you believe there would be inflation quality enough in this issue to send gold abroad?

Mr. CONANT. No; not to a dangerous extent. If the law requires the reserve to be in lawful money or gold, I do not think there is danger of any excessive exportation. Of course, if notes were the main form of issuing credit to-day, I do not know but that I would favor the reserve being as large as that held against deposits. The law requires so much against deposits—25 per cent in the cities and 15 per cent in the country—and I think that is sufficient.

Mr. LOVERING. I asked Mr. Breckenridge this question: Is it not true that the Canadian banks are not allowed to pay out notes of other banks?

Mr. CONANT. I do not understand that to be a fact. They pay out the notes of other banks and require the banks to pay them a commission for doing so. They divide the profits. If a Canadian bank obtains notes from other banks, it pays a commission to the bank for the issuing of them. I do not understand there is any lawful prohibition on paying out the notes of other banks in Canada.

Mr. FOWLER. Would the 2 per cent Government bonds in the United States, in your judgment, fall if we should remove the requirement that now exists for holding them as a part of the assets of every national bank?

Mr. CONANT. Do you mean remove it optionally?

Mr. FOWLER. Remove it to-day and say that no bank shall be compelled to hold any Government bonds. Under those circumstances do you believe that the 2 per cent Government bonds would fall perceptibly?

Mr. CONANT. I am inclined to think they would.

Mr. FOWLER. How much?

Mr. CONANT. It is impossible to say.

Mr. FOWLER. How much, in your judgment?

Mr. CONANT. I think the time might come when they would fall to par, although that would depend upon the demand and the quantity.

Mr. FOWLER. I would like to get your judgment as a student upon the question of whether the 2 per cent gold bonds of the United States would fall perceptibly if we removed the condition requiring national banks to hold Government bonds. If so, to what point would they fall?

Mr. CONANT. It is impossible to say to what point they would fall; it would depend very much upon whether the banks were largely owning them.

Mr. FOWLER. Do you think they would fall to 90?

Mr. CONANT. No, sir.

Mr. FOWLER. Do you think they would fall to 95?

Mr. CONANT. No, sir.

Mr. FOWLER. Do you think they would fall to 97?

Mr. CONANT. With the present quantity, I should say no.

Mr. FOWLER. Assuming the conditions?

Mr. CONANT. No, sir; I do not think so.

Mr. FOWLER. In other words, I want to have your opinion upon the question of whether it is at all necessary to link any system of credit currency with a secured currency, because, forsooth, we have so hinged the two together.

Mr. CONANT. Under the present conditions I do not think the price of the bonds would fall below par.

Mr. FOWLER. In 1891 the price level was about what it was on the 1st of January, 1901.

Mr. CONANT. The price of bonds or commodities?

Mr. FOWLER. No; the price level of commodities. The circulation at that time was about $21 per capita. On the 1st day of January, 1901, when the price level was the same as in 1891, we had about $28 per capita. Will you tell me whether or not in your judgment there is such a condition of things in the United States as to require $7 per capita more now, with the price level the same, than we had in 1891?

Mr. CONANT. That is a difficult question to answer. The probability is that money is better diffused now; that is, there is not any more per capita in the custody of people at present who then had all they needed, but there is more money in the hands of those who did not have any then.

Mr. LEWIS. Do you think this is about the best bill we can prepare to carry out your views?

Mr. CONANT. Yes, sir; there are a great many propositions that could be presented that would carry out the main principle, but I think this bill carries it out in a modest way. It will probably need extensions later.

Mr. FOWLER. Do you or do you not anticipate a retirement of a portion of the national-bank notes that are now outstanding as a result of the experience on the part of the banks that they have been unable to keep out the circulation just now?

Mr. CONANT. I think it is quite probable, although, owning the bonds, they are likely to force the notes back into circulation.

Mr. FOWLER. But will not the average length of time that the notes are in the bank reduce the profit so as to compel them, out of self-interest, to retire a portion of the circulation?

Mr. CONANT. Yes, sir; it is useless, comparatively, to them.

Mr. FOWLER. It is a loss?

Mr. CONANT. If they own the bonds, it is a loss. A man can not recover his capital if he does not sell the bonds.

Mr. FOWLER. Suppose the national banks shall find at the end of a period when they balance their books that they have been unable to keep their notes out half the time?

Mr. CONANT. There then would be a tendency to sell the bonds if they could do so profitably.

Mr. FOWLER. Suppose they should find that one-half of the capital has been idle, they would loan it if one-half of the notes had been lying idle in the bank all the time?

Mr. CONANT. That would depend on the price of the bonds; they might hold the bonds to draw the interest.

Mr. FOWLER. It is a current loss?

Mr. CONANT. Yes, sir.

Mr. FOWLER. And the bank would be inclined to get rid of the bonds and reduce its circulation?

Mr. CONANT. Yes, sir. You can not rely on the bonds to stimulate the circulation.

Mr. LOVERING. I want to ask a question, which I think Mr. Fowler has asked a good many times, whether an issue of these bonds will tend to increase the burden upon the gold of the Treasury?

Mr. CONANT. No; I do not think so. As I understand the position which has been taken by some of the critics of the bill, it is that the ability to secure the redemption of notes from the fund in the custody of the Treasury will add to the pressure upon the gold reserve. I can not see that that would be the fact to any perceptible extent, because the volume of Government money is fixed practically under existing law.

There are $346,000,000 of greenbacks and $66,000,000 of Treasury notes, and the banks are required by law to hold those notes or gold in their reserves against deposits, and whether they present a few notes for redemption or whether the notes are presented by some gold exchange house or by some individual, does not seem to me material. They are locked up in certain contingencies. More than that: If the bill of Mr. Overstreet or Mr. Hill, making the standard absolutely unquestionable, is passed, you never will have any demand for gold beyond the export demand, because you will never have any question as to the gold standard. If there is credit inflation and currency inflation, you will have an outlet—a sort of blood-letting—in the form of exports, but your demand for gold will be limited to the export demand, and your system of redemption will not go any further than the requirements of the international markets demand.

Mr. LOVERING. The demand for gold ultimately falls upon the Treasury?

Mr. CONANT. It may be put there by the banks under existing law, and there is no way to remedy that until you retire Government obligations.

Mr. LOVERING. Why does business exact that demand or promote that demand? In other words, is it a condition of business that promotes that demand for gold—I mean international business—or is it a matter of distrust?

Mr. CONANT. International exchanges call for certain movements of gold, but they regulate themselves.

Mr. LOVERING. That is by business?

Mr. CONANT. Yes, sir.

Mr. LOVERING. What I want to know is whether it is a distrust or a business demand for gold that taxes the Treasury?

Mr. CONANT. There would be no demand, from distrust, so long as there is perfect confidence in the standard, as I think there would be under a law providing for the interchangeability of money. So long as there is perfect confidence, the banks will furnish voluntarily a considerable part of the gold. They have been doing so. They have been redeeming gold certificates instead of Treasury notes or greenbacks, and in the New York clearing house the banks have some one hundred and sixty millions of gold. They will furnish that freely so long as there is no distrust, and probably they would not turn to the Treasury to any considerable extent under a pretty strong international gold movement, because of its effect in the New York money market.

Mr. LOVERING. May not the gold in the Treasury be depleted by legitimate business demands to a point that would engender distrust?

Mr. CONANT. Not if the Secretary of the Treasury acted with a particle of judgment and discretion, because he has a variety of ways of obtaining gold, and should not permit it to be depleted to such an extent as to promote distrust.

Mr. LOVERING. And there is no fear that that will set in?

Mr. CONANT. No, sir; not so long as we are on the gold standard.

House Report No. 2955, Fifty-sixth Congress, second session.

CURRENCY RESPONSIVE TO THE NEEDS OF BUSINESS.

February 25, 1901.—Committed to the Committee of the Whole House on the state of the Union and ordered to be printed.

Mr. Lovering, from the Committee on Banking and Currency, submitted the following

REPORT.

[To accompany H. R. 13303.]

The Committee on Banking and Currency, to whom was referred the bill (H. R. 13303) to make the currency responsive to the varying needs of business at all seasons and in all sections, reports the same back with sundry amendments.

To carry on the business of a country requires money. If there be little business, little money will be required. If there be a large business, a great deal of money will be required. In the popular use of the word, money includes all forms of circulating currency. Therefore, that business may have the fullest opportunity to develop, it must be allowed to determine in some measure the volume of circulating currency that is necessary.

The responsibility of maintaining the integrity of circulating currency should, as far as possible, be laid upon the banks issuing the currency.

A circulating bank note dependent upon Government bonds is probably as safe and stable as the Government itself, but not safer nor more stable than a circulating note based on many billions of assets in the possession of the banks. A system of security based upon the great law of general average concentrates the power of its protection upon the smallest note of the smallest bank.

Every bank note issued under such a system has practically the assets of all the banks behind it.

The purpose of this act is to provide for a currency which shall have some degree of flexibility, expanding to meet the demand wherever and whenever business requires more money, and contracting wherever and whenever business falls off and requires less money.

It is expected that the operation of this law will afford relief to all parts of the country, and especially to those sections where a large volume of currency is necessary to move the crops during the harvesting, and a smaller volume at other seasons of the year, after the crops have gone forward.

Under the present law at these periods currency is drawn from the great money centers to meet these urgent demands, and when it can not be thus profitably employed, finds its way directly back to the great money centers.

Under the bill reported by your committee in such time of need the banks throughout the country will issue their own currency, and it is expected that this currency will, when not needed in any given locality, find its way directly back to the banks that issued it, and avoid its congestion in the great cities.

VALUE OF CREDIT NOTES IN CRISES.

The power conferred by this bill to issue credit notes would be as useful in certain emergencies to the city banks as to those of the country. This would be especially the case in times of commercial panic. There is at such times an unusual demand for currency. This demand does not arise so much from a real increase in the demand for credit as from the fact that distrust is cast upon those forms of credit which are not represented by currency. There is a scramble for money or its equivalents, because of the fear that money can not be had. This has been the experience in the great panics in London in 1847, 1857, and 1866, and was the experience in New York in 1893. Currency was then sold at a premium, and the banks felt compelled to suspend the payment of currency for checks. The reason for this suspension of currency payments was the fact that the supply of currency was limited and the banks were required by law to hold a certain amount as cash reserves.

The value of a credit currency at such a time would have been very great, because this currency would have been accepted as money and the cash in the hands of the banks could have been husbanded for reserves. The capital of the national banks of New York City is $62,800,000 and their bonds deposited in the Treasury to secure circulation stood on December 13, 1900, at $31,710,000. This would have permitted the issue of about $6,000,000 in credit notes. The mere power to issue those notes would have done much to diminish the fear regarding the currency supply and probably have prevented the suspension of currency payments by the banks. The amount of the issue of credit notes upon the above basis which would be lawful under the bill at the end of three years would be about $12,000,000 and at the end of six years about $24,000,000. Such issues would have greatly diminished, if they had not rendered unnecessary, the issues of clearing-house loan certificates by the New York banks and by the banks of other reserve cities.

The use of the notes would have been a valuable expedient for meeting the temporary pressure for money. There can be no doubt of their ready acceptance by the public if the safeguards provided by the bill operate in accordance with all banking experience. The fact that the public did not discriminate against even the most doubtful form of money was shown in 1893 by their willingness to accept silver certificates in spite of the fact that the causes of the panic lay largely in the distrust of the silver dollars and of the ability of the Government to sustain them at par with gold. What is needed on such occasions is some form of currency which is used as money. The fact that bank notes do not excite distrust, but tend rather to diminish the

pressure for coin, was shown in a striking degree in England, where the suspension of the limit imposed upon the issues of the Bank of England in 1847, 1857, and 1866 almost immediately allayed the pressure for currency.

The ability to issue credit notes would relieve the pressure of a panic in another way. By giving to the country banks an increased power of issue it would enable them to husband their cash reserves and would greatly diminish their drafts upon New York and the other reserve cities for legal-tender money. Thus the New York banks would be aided not only by their own power of issue, but by relief from the withdrawal of reserve deposits, which is always so serious a menace in times of panic or monetary pressure. This relief would, perhaps, be more important in some respects than the ability of the city banks themselves to issue notes, and the net result of all these resources would be much greater elasticity in the banking system for meeting emergencies of every nature.

MAXIMUM OF NOTE ISSUES AUTHORIZED.

The bill herewith reported enters upon the system of an elastic currency in a modest and tentative way, in order that its operation may be thoroughly tested in practice before the demand becomes imperative for a large increase in the currency supply of the country. The capital of the national banks reporting to the Comptroller of the Currency on December 13, 1900, was $632,353,405. The maximum circulation attainable upon this amount of capital under the bill herewith reported during the first three years of its operation would be one-tenth of this amount, or $63,235,340. The maximum is limited in another way, however, by the provision that the guaranteed notes authorized by the bill shall not exceed one-fifth of the bonds deposited by any bank to secure circulation. The total of such bond deposits on December 13, 1900, was $306,622,180. One-fifth of this amount would be $61,324,436. This would be the theoretical maximum in guaranteed notes which could be issued upon the present bond holdings of national banks.

Several considerations indicate, however, that the maximum actually attained would be much less than this amount. The bonds are not distributed with uniformity among the banks, and those having more than 50 per cent of their capital in bonds would not be able to take out in any case more than 10 per cent of their capital in guaranteed notes. The excess of bonds above 50 per cent of capital would not be available for the issue of guaranteed notes, and the limit of maximum issues would be diminished by the amount of this excess. It is not probable, moreover, that the authority to issue guaranteed notes would be availed of to its ultimate limit, especially in the case of the banks of the large cities, where even the present bond-secured notes are not a large element in the business of the banks.

The theoretical limit of the issue of guaranteed notes would be doubled after three years, assuming that the total capital of the banks and their holdings of bonds remained stationary, and would be about $122,000,000. The amount would be again doubled at the end of six years and would permit a maximum circulation of guaranteed notes to the amouut of about $244,000,000. It is probable that the new system would be availed of only to the amount of a few millions in the crop-

moving season during the first two or three years of its operation, but that it would come into wider use as its usefulness came to be appreciated and the demand for currency increased. The possible limit of issues of $244,000,000 would meet the growth of population and the expansion of business for some time to come, and would be capable of further extension by the increase of banking capital and the admission of State banks to the national system.

The proposed new form of circulation has been purposely related to the bond-secured circulation in order to avoid radical changes which might result in disturbance to the bond market. If the new circulation proves more advantageous than the existing system, it will naturally be preferred by the banks, and if it were unconnected with the bond-secured currency might result in heavy sales of bonds by national banks in the open market. Your committee believe that any such disposition to unload bonds, with the natural result of depressing their price, is fully guarded against by the provision which limits the guaranteed notes to fixed proportions of the bonds on deposit to secure the old form of circulation. The gradual expansion of this ratio of the new notes to the old is not likely to prove more than adequate to meet the expansion of business. It is probable that the capital of the national banking system will increase from time to time and that all the bonds available will be sought to meet the requirements from new banks under existing law.

It is, indeed, more than probable that within the six years before the maximum circulation under the proposed bill becomes available, national banking capital will have so far increased as to intensify the demand for bonds and raise their price rather than diminish it.

If the bonded debt should be materially reduced in future by the purchase and retirement of outstanding bonds, the time may come when a gradual reduction of the present minimum requirements of law in regard to the deposit of bonds by national banks may be necessary. Your committee have not thought proper, however, to anticipate such conditions, and are satisfied that the bill reported affords no inducement to the national banks for throwing their bonds prematurely upon the market, and guards fully against any depreciation in their price from such an influence.

SECURITY OF THE PROPOSED NOTES.

The question of the security of credit notes issued upon general assets has been carefully considered by your committee, and they are satisfied that the notes are adequately guarded by the bill reported. All the calculations which have been made upon this subject, based upon the banking experience of the United States and other countries, have indicated that a small tax upon the credit issues would be sufficient to cover the difference between the face value of the notes of a failed bank and the amount recovered from its assets. It is necessary in such cases that the redemption of the notes should be prompt and certain. For this reason it is directed by the bill herewith reported that the notes of a failed bank shall be redeemed in full from the guaranty fund and that this fund shall thereafter recover from the assets of the failed bank the amount employed in redeeming notes in the same ratio as the dividends paid to other creditors of the bank. These provisions are borrowed to some extent from the Canadian banking law, which has been eminently successful in its operation.

The guaranty fund established by the bill of your committee is to be made up at the outset of an amount equal to 5 per cent of the notes issued. This fund is then to be maintained by an annual tax of one-half of 1 per cent upon the amount of notes actually in circulation. Experience has shown that the proceeds of such a tax will be many times more than sufficient to meet all losses upon the notes of failed banks beyond the amount recovered from their assets. How ample this security would be was set forth in a recent address of the chairman of the committee at Lancaster, Pa., upon data carefully prepared by the Secretary of the Treasury. The portion of the address of the chairman upon this subject was as follows:

A careful investigation has been made by the Actuary of the Treasury Department, which shows approximately what losses would have fallen upon such a safety fund on account of failed banks since the establishment of the national banking system if either of the two modes of indemnity for the Government's guaranty had been in vogue.

First, if the banks had been allowed to issue circulation to the amount of 50 per cent of their capital and had issued the full amount and been required to pay into a safety fund 1 per cent of their issue annually, and the Government had a first lien upon the assets, there would have been an aggregate loss of $69,211 to be paid out of the safety fund.

Secondly, under the same conditions, excepting that the Government has a lien on the assets ratably with other creditors, including depositors, the loss to be paid out of the safety fund would have aggregated $3,961,168, while under the case of having the first lien upon assets, after paying all notes not paid by the assets, there would have remained of the safety fund on October 1, 1900, a sum which, with interest at 2 per cent, would amount to $130,953,467; and in the case of having a ratable lien only with other creditors, the fund remaining after paying all notes not paid by a ratable share of the assets, with interest at 2 per cent added, would be $124,588,201. It may be noted in passing that this calculation is predicated upon the assumption that the losses under the system described would not have exceeded those which actually occurred under the present system. This seems to afford absolute demonstration of safety to the Government in such a safety fund for its indemnity for guaranteeing the issues of the banks.

SYNOPSIS OF THE BILL.

Section 1 provides that additional circulation, beyond the bond-secured notes already authorized by existing law, may be issued by banks to be known as guaranteed bank notes.

Such issue is safeguarded by a provision that the Comptroller shall not be compelled to issue such guaranteed notes to any bank if, for any reason relating to the condition of the bank making application for such notes, the general state of circulation, or the foreign exchanges, he shall deem such action to be inexpedient.

This does not, however, confer any new power upon the Comptroller of the Currency to call in or cancel any of the guaranteed bank notes that have been issued. This is entirely in the hands of the bank issuing its notes.

Section 2 provides for the amount of guaranteed notes that a bank may issue, namely: An amount not exceeding one-fifth of the face value of the United States bonds that said bank has on deposit with the United States Treasurer to secure its currency notes issued under existing law. But no bank can issue an amount exceeding 10 per cent of its paid up and unimpaired capital.

Section 3 establishes a guarantee fund of 5 per cent of the amount of outstanding guaranteed bank notes, to be kept in the division of issue and redemption in the office of the United States Treasurer, and exacts that this fund shall be kept intact.

Section 4 provides the manner in which the Comptroller of the Currency shall redeem the notes of failed banks, and the manner in which the United States Treasury shall reimburse itself for all payments made on account of a banking association refusing to pay its notes on demand in lawful money.

Section 5 provides for the maintenance of the guaranty fund by laying upon the banks taking out such circulation a tax of one-half of 1 per cent per annum during the time such notes are in circulation.

Section 6 prescribes the manner in which the Treasurer of the United States may collect and enforce the payment of the taxes and provides suitable penalties for nonpayment.

Section 7 provides for the custody and disposition of the guaranty fund. It also provides that when and if the guaranty fund shall exceed 5 per cent of the outstanding guaranteed notes, then the Comptroller may at his discretion direct the repayment to the banks in such installments as he may see fit of the unimpaired portion of their original contribution of 5 per cent to the guaranty fund. So that if it be found after a time that the tax of one-half of 1 per cent shall be more than sufficient to maintain the guaranty fund and to meet all requirements for paying the notes of failed banks, the solvent banks may enjoy such relief as they are entitled to.

It is also provided that when the tax has raised a fund in excess of probable requirements the excess may be covered into the Treasury, in order to prevent the needless locking up of the money, but the fund shall have a lien upon amounts thus transferred in case they are needed to meet demands upon it.

Section 8 authorizes the Secretary of the Treasury, at his discretion, to invest the guaranty fund in bonds of the United States, and the bill contemplates that the fund shall be held as a trust fund exclusively for the payment of the notes of failed banks.

Section 9, in order to further secure the notes, directs the Comptroller of the Currency, when he shall have occasion to sell United States bonds of any failed bank at public auction under the existing law, to apply any excess in amount above their par value which he shall receive for said bonds to the payment of the outstanding guaranteed bank notes of said bank.

Section 10 establishes a current redemption fund to take care of the guaranteed notes, and this fund is subject to the law governing the redemption fund held under the existing law for the current redemption of national-bank notes. This section also authorizes the redemption of guaranteed bank notes at any or all of the subtreasuries of the United States.

Section 11 authorizes the Comptroller of the Currency, with the approval of the Secretary of the Treasury, to prescribe the form of notes to be issued.

Section 12 prescribes the method of withdrawal from circulation of any of the guaranteed bank notes which a bank shall have issued and establishes the conditions upon which the tax on notes so withdrawn shall cease.

Section 13 looks to the extension of note issues after three years, and again after six years from the passage of this act. If it be found after this law has been in operation three years, that the advantages shall be such as to justify the extension of the system, and again after six years' experience shall prove that it is desirable to still further extend it, this may be done without new legislation, but if on the other

hand it should be found that this legislation was not remedial and the banks did not avail themselves of their privileges under this bill then no serious derangement would have resulted in consequence of its enactment.

AMENDMENTS OF THE COMMITTEE.

The amendments adopted by the committee are as follows:

Amend section 3, line 14, and section 9, line 3, and section 10, line 10, by striking out "gold coin" and inserting in place thereof "lawful money." By inserting after section 5, page 4, after line 3, the following new section to be numbered as section 6:

SEC. 6. That the tax upon circulation authorized in this act may be collected by the Treasurer of the United States from any funds or moneys in the Treasury to the credit of the bank upon which such taxes are assessed, and a fine not exceeding five hundred dollars may be imposed by the Comptroller upon any bank failing for one month after notice by the Treasurer of the United States to restore such funds or moneys to the amounts required by law; and the continued neglect of any bank to pay such taxes or fines or restore such moneys shall be, in the discretion of the Comptroller of the Currency, sufficient ground for the appointment of a receiver for such bank.

By inserting after section 12 the following new sections, to be numbered as sections 14 and 15:

SEC. 14. That all provisions of existing law regarding the issue of national currency notes and the manner of dealing with redeemed, mutilated, or incomplete currency notes and all such provisions relating to the redemption of currency notes of liquidating banks, shall be applicable, so far as they are not inconsistent with the provisions of this act, to the guaranteed bank notes herein provided for: *Provided*, That so much of section nine of the act approved July twelfth, eighteen hundred and ninety-two, entitled "An act to enable national banking associations to extend their corporate existence, and for other purposes," as provides that not more than three millions of dollars of lawful money shall be deposited during any calendar month for the withdrawal of circulation shall not be applicable to the guaranteed bank notes issued under this act: *And provided further*, That none of the funds or moneys required to be held in the Treasury on account of any bank under the provisions of this act shall be counted as a part of the lawful money reserve required against deposits.

SEC. 15. That all powers granted by existing law to the Comptroller of the Currency and Treasurer of the United States in regard to the issue of currency notes to national banks, the collection of taxes, and the infliction of penalties for noncompliance with law are hereby extended to such officers in respect to guaranteed bank notes, so far as such powers are not inconsistent with other provisions of this act; and all judicial processes authorized by existing law in regard to national currency notes issued to national banks are hereby made applicable in regard to guaranteed bank notes, so far as they are not inconsistent with other provisions of this act.

And by renumbering all of the sections after section 5 to conform to these additional amendatory sections.

TEXT OF THE AMENDED BILL.

The bill as amended by your committee will read as follows:

A BILL to make the currency responsive to the varying needs of business at all seasons and in all sections.

Be it enacted by the Senate and House of Representatives of the United States of America in Congress assembled,

GUARANTEED BANK NOTES AUTHORIZED.

That, in addition to the circulation authorized by existing law to be issued to national banking associations upon deposits of United States bonds, the Comptroller of the Currency may issue circulating notes, to be known as guaranteed bank notes, in the amounts and under the conditions hereinafter set forth: *Provided*, That nothing herein contained shall be construed as compelling said Comptroller to issue such guar-

anteed bank notes if for any reason relating to the condition of the bank making application for such notes, the general state of the circulation, or the foreign exchanges he shall deem such action to be inexpedient.

PRESENT ISSUES LIMITED TO TEN PER CENT.

SEC. 2. That guaranteed bank notes may be issued to any national banking association under the provisions of this act to an amount not exceeding one-fifth of the face value of the United States bonds on deposit by said bank with the Treasurer of the United States to secure currency notes issued under existing law, but such guaranteed bank notes shall not be issued to an amount in excess of ten per centum of the paid up and unimpaired capital of said bank.

BANK-NOTE GUARANTY FUND ESTABLISHED.

SEC. 3. That every national banking association issuing guaranteed bank notes shall pay into the division of issue and redemption in the office of the Treasurer of the United States a sum in lawful money equal to five per centum of its outstanding guaranteed bank notes. This fund shall be known as the "bank-note guaranty fund," and shall not be reduced or impaired except for the purpose of redeeming the guaranteed bank notes of failed banks, as hereinafter prescribed.

EMPLOYMENT OF THE GUARANTY FUND.

SEC. 4. That whenever the Comptroller of the Currency shall have become satisfied by the protest or the waiver and admission specified in section fifty-two hundred and twenty-six, or by the report provided for in section fifty-two hundred and twenty-seven, of the Revised Statutes of the United States, that any banking association has refused to pay its guaranteed bank notes on demand in lawful money he shall direct the redemption of such notes from the bank-note guaranty fund aforesaid, and such notes shall thereupon be so redeemed. The Comptroller of the Currency shall collect for the benefit of said fund, from the assets of the bank and from the stockholders thereof, such sum as, with the bank's balance in the bank-note guaranty fund, shall equal the amount of its guaranteed bank notes outstanding. And for this purpose the United States shall, on behalf of the bank-note guaranty fund, have a lien upon all the assets of the association ratably with other creditors of the bank.

ANNUAL TAX UPON NOTES IN CIRCULATION.

SEC. 5. That upon all outstanding guaranteed bank notes issued under the provisions of this act there shall be paid a tax equal as nearly as may be to one-half of one per centum per annum during the period for which such notes may be in circulation. Said taxes shall be levied under regulations prescribed by the Comptroller of the Currency, with the approval of the Secretary of the Treasury, and shall be assessed by the Treasurer of the United States. Such regulations shall provide for the assessment of the tax upon notes actually in circulation outside the issuing bank at convenient dates, not less than four in any month, as fixed by the Comptroller of the Currency, and said Comptroller may prescribe and require from any national banking association making application for circulation under this act such periodical or other reports as he may deem desirable for determining the condition of the bank.

SEC. 6. That the tax upon circulation authorized in this act may be collected by the Treasurer of the United States from any funds or moneys in the Treasury to the credit of the bank upon which such taxes are assessed, and a fine not exceeding five hundred dollars may be imposed by the Comptroller upon any bank failing for one month after notice by the Treasurer of the United States to restore such funds or moneys to the amounts required by law; and the continued neglect of any bank to pay such taxes or fines or restore such moneys shall be, in the discretion of the Comptroller of the Currency, sufficient ground for the appointment of a receiver for such bank.

TAXES TO BE ADDED TO GUARANTY FUND.

SEC. 7. That the proceeds of the taxes herein prescribed shall be paid into the bank-note guaranty fund and constitute a part thereof; but when such fund, after the deduction of all losses caused by the redemption of the notes of failed banks, shall be materially in excess of five per centum of the guaranteed bank notes then outstanding, the Comptroller of the Currency may from time to time in his discretion, direct the reimbursement by the Treasurer of the United States to the banks, in such installments as said Comptroller may see fit, of the unimpaired

portion of their original contribution of five per centum to the bank-note guaranty fund; and thereafter any excess in the fund of the proceeds of the taxes herein provided above five per centum of the guaranteed bank notes outstanding at the end of every six months shall be covered into the Treasury of the United States as a miscellaneous receipt: *Provided*, That in case of a deficiency in said fund at any time, caused by the redemption of the notes of failed banks, said fund shall be reimbursed from the amounts covered into the Treasury in such amounts as may be required to maintain it as nearly as may be at the amount of five per centum, and not less, of the guaranteed bank notes outstanding, but the Treasury shall not be liable in the aggregate to said fund beyond the amounts covered into the Treasury under the provisions of this section.

SEC. 8. That the Secretary of the Treasury be, and is hereby, authorized, in his discretion, to cause to be invested in bonds of the United States any portion of the guaranty fund hereinbefore provided for; and such bonds shall be held and disposed of for the benefit of such fund.

SEC. 9. That whenever the Comptroller of the Currency has sold at public auction under the provisions of section fifty-two hundred and thirty of the Revised Statutes of the United States the United States bonds held to secure the currency notes of any failed bank, any excess in the amount received for said bonds above their par value shall be applied to the payment of the outstanding guaranteed bank notes of said bank, and for this purpose the United States shall have a paramount lien upon any such excess, but any further excesses above the amount required for this purpose shall be covered into the general assets of the bank.

CURRENT REDEMPTION FUND ESTABLISHED.

SEC. 10. That national banking associations taking out guaranteed bank notes under the provisions of this Act shall, in addition to the bank-note guaranty fund, deposit and maintain in the Treasury a fund of five per centum of their outstanding guaranteed bank notes, subject to the laws governing the redemption fund held under existing law for the current redemption of national bank notes; but such fund shall be paid and kept in lawful money of the United States, and shall constitute a separate fund for the current redemption of guaranteed bank notes: *Provided*, That the Comptroller of the Currency shall, with the approval of the Secretary of the Treasury, have authority to provide for the redemption of guaranteed bank notes at any or all of the subtreasuries of the United States, and guaranteed bank notes issued under the provisions of this act shall be redeemed in lawful money on demand at the counter of the issuing bank.

SEC. 11. That the guaranteed bank notes furnished to national banking associations under the provisions of this act shall be in such form as the Comptroller of the Currency, with the approval of the Secretary of the Treasury, may prescribe, and of the denominations and under the limitations prescribed for national bank notes by section twelve of the act of March fourteenth, nineteen hundred, entitled "An act to define and fix the standard of value, to maintain the parity of all forms of money issued or coined by the United States, to refund the public debt, and for other purposes."

METHOD OF REDUCING CIRCULATION.

SEC. 12. That any national banking association desiring to withdraw from circulation any of its guaranteed bank notes may transmit the same to the Treasurer of the United States for cancellation, or may pay into the Treasury an amount equal to the amount of the notes to be withdrawn, in the manner prescribed by sections fifty-two hundred and twenty-two, fifty-two hundred and twenty-four, and fifty-two hundred and twenty-five of the Revised Statues; but such payments shall be in gold coin of the United States. The taxes upon such guaranteed bank notes thus withdrawn from circulation shall thereupon cease, and the Comptroller of the Currency shall direct the repayment to such bank of whatever sum may be the unimpaired portion of its original contribution to the guaranty fund on account of said notes, but nothing paid in taxes upon such notes under section five of this act shall be thus repaid.

EXTENSION OF NOTE ISSUES AFTER THREE YEARS.

SEC. 13. That after three years from the passage of this act guaranteed bank notes may be issued to any national banking association under the provisions of this act to an amount not exceeding two-fifths of the face value of the United States bonds on deposit by said bank with the Treasurer of the United States to secure currency notes issued under existing law, but such guaranteed bank notes shall not be issued to an

amount in excess of twenty per centum of the capital of said bank; and after six years from the passage of this act guaranteed bank notes may be issued to any national banking association to an amount not exceeding four-fifths of the face value of the United States bonds on deposit by said bank with the Treasurer of the United States to secure currency notes issued under existing law, but such guaranteed bank notes shall not be issued to an amount in excess of forty per centum of the capital of said bank: *And provided*, That nothing herein contained shall be construed as compelling the Comptroller of the Currency to issue such guaranteed bank notes or to increase the ratio of such issues to the bonds deposited by any national banking association if for any reason relating to the condition of the bank, the general state of the circulation, or the foreign exchanges he shall deem such action to be inexpedient; and said Comptroller shall not increase the ratio of issue of guaranteed bank notes in any case beyond the amount provided in section one of this act until after the Secretary of the Treasury shall have declared in writing that the general policy of such an increase will not be detrimental to the monetary standard and to the public interests, and is approved by him.

SEC. 14. All provisions of existing law regarding the issue of national currency notes and the manner of dealing with redeemed, mutilated, or incomplete currency notes, and all such provisions relating to the redemption of currency notes of liquidating banks, shall be applicable, so far as they are not inconsistent with the provisions of this act, to the guaranteed bank notes herein provided for: *Provided*, That so much of section nine of the act approved July twelfth, eighteen hundred and ninety-two, entitled "An act to enable national banking associations to extend their corporate existence, and for other purposes," as provides that not more than three millions of dollars of lawful money shall be deposited during any calendar month for the withdrawal of circulation shall not be applicable to the guaranteed bank notes issued under this act: *And provided further*, That none of the funds or moneys required to be held in the Treasury on account of any bank under the provisions of this Act shall be counted as a part of the lawful money reserve required against deposits.

SEC. 15. That all powers granted by existing law to the Comptroller of the Currency and Treasurer of the United States in regard to the issue of currency notes to national banks, the collection of taxes, and the infliction of penalties for noncompliance with law are hereby extended to such officers in respect to guaranteed bank notes, so far as such powers are not inconsistent with other provisions of this act; and all judicial processes authorized by existing law in regard to national currency notes issued to national banks are hereby made applicable in regard to guaranteed bank notes, so far as they are not inconsistent with other provisions of this act.

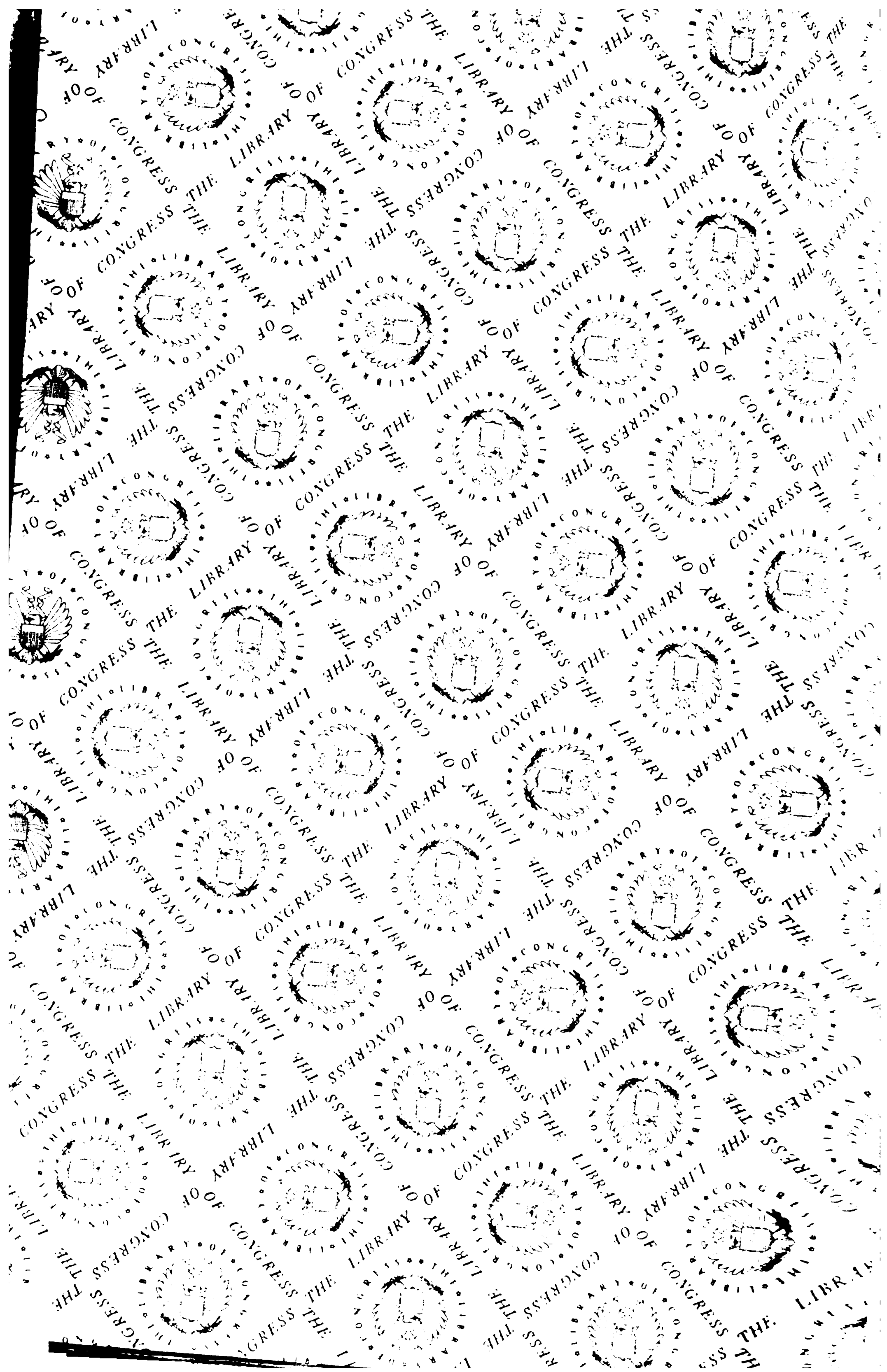
SEC. 16. That this act shall take effect upon its passage.

INDEX.

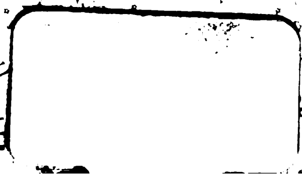
	Page.
Breckenridge, R. M	30
Conant, Charles A	87
Gage, Lyman J	7
White, Horace	53
H. R. 13303 as introduced	3
H. R. 13303 as amended and reported to the House	112
Report of Banking and Currency Committee upon H. R. 13303	106

RD 1.7 1

LBJa '05



DOBBS BROS.
LIBRARY BINDING
72
ST. AUGUSTINE
FLA.
32084



LIBRARY OF CONGRESS
0 018 693 925 6